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Prepared by the
Receiver General for Canada

public accounts of canada

1989

Volume III

The President of the Treasury Board :

Annual Report to Parliament on Crown Corporations and other Corporate Interests of Canada

Canada

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INTRODUCTION TO THE PUBLIC ACCOUNTS

Nature of the Public Accounts

The Public Accounts is the report of the Government of Canada prepared each fiscal year by the Receiver General as required by Section 64 of the Financial Administration Act.

The report covers the fiscal year of the Government, which ends on March 31, and is prepared from data contained in the accounts of Canada and from more detailed records maintained in departments and agencies. The accounts of Canada is the centralized record of the Government's financial transactions maintained by the Receiver General in which the transactions of all departments and agencies are summarized. Each department and agency is responsible for reconciling its accounts to the control accounts of the Receiver General, and for maintaining detailed records of the transactions in their accounts.

The report covers the financial transactions of the Government during the year. In certain cases, parliamentary authority to undertake transactions was provided by legislation approved in earlier years.

Format of the Public Accounts

The Public Accounts is produced in three volumes.

Volume I presents a summary analysis of the financial transactions of the Government. **Volume II** is published in two parts. **Part I** presents the financial operations of the Government, segregated by ministry while **Part II** presents additional information and analyses.

Volume III responds to Section 151(1) of Part X of the Financial Administration Act. In it, the President of the Treasury Board provides Parliament with an annual consolidated report on the businesses and activities of all parent Crown corporations. The report includes a list naming, as of a specified date, all Crown corporations and all corporations of which any shares are held by, on behalf of or in trust for the Crown or any Crown corporation. Employment and financial data, including aggregate borrowings of parent Crown corporations and other information, are also provided.

THE PRESIDENT'S MESSAGE

I am pleased to present the sixth consolidated *Annual Report to Parliament on Crown Corporations and Other Corporate Interests of Canada*.

This Report coincides with the fifth anniversary of the framework established in 1984 for the control and accountability of Crown corporations. We have made substantial progress in the intervening years towards effective management of the government's portfolio of Crown corporations. I believe this is due largely to the quality of employees working within Crown-owned enterprises and to the dedication of the board members and management of individual corporations. I wish to take this opportunity to thank them.

In the following introductory paragraphs to the Report, the total financial and employment situation of the Crown corporations and developments in a number of specific corporations are highlighted. Information is provided on the government's privatization initiatives, and on its official languages and employment equity programs.

OVERVIEW

The Report is divided into two parts:

Part I provides consolidated financial data on all parent Crown corporations, as reported by them at their financial year-end on or before July 31, 1989. It also provides other corporation-specific and aggregated information.

Part II lists other corporate interests of Canada, provides supplementary information about them, and lists the subsidiaries of the wholly-owned corporations.

As of September 1, 1989, there were 53 parent Crown corporations. Forty-five of these are listed in Schedule III of the *Financial Administration Act* (FAA), and are therefore required to conduct their business and activities in a manner consistent with Part X of the FAA and its related regulations. The remaining eight are exempt from the provisions of divisions I to IV of Part X.

In addition, three generally autonomous subsidiary corporations have been directed by the Governor in Council to report their affairs as if they were listed in Schedule III: *Petro-Canada International Assistance Corporation* and two of the three subsidiaries of *Canada Lands Company Limited*. Three of the forty-five corporations listed in Schedule III are in the process of being dissolved: *Canadian National (West Indies) Steamships, Ltd., Mingan Associates Limited and Teleglobe Canada*.

At March 1989, the combined total assets of parent Crown corporations were $54 billion and employment totalled 140,000. Crown corporation debt to the private sector totalled $16.2 billion and their debt to Canada totalled $15.0 billion. Cash budgetary payments from Canada to the corporations during 1988-89 totalled $4.9 billion.[1]

In the report period, combined total assets decreased by $4.1 billion, a decline of 7 percent, due mostly to the sale of *Air Canada*, whose assets totalled $3.1 billion and to the sale of subsidiaries by *Canadian National Railways* (CNR), which reduced its assets by $0.7 billion in the period.

1. The Bank of Canda is excluded from these data.

The continued decline of employment, to 140,000 on March 31, 1989 from 169,000 the preceding year, reflects the sale of *Air Canada* and of *CNR* subsidiaries.

Debt to the private sector declined $1.3 billion or 7 percent in 1988-89. Reflected in this decline is the exclusion of *Air Canada's* debt and the debts discharged by *CNR* and the *Canadian Wheat Board*. In addition, *Canada Deposit Insurance Corporation* was able to eliminate its private sector obligations altogether with funds from Canada and cash from the sale of assets it has had to assume from failed institutions.

The debt of all the Crown corporations to Canada remained relatively stable, down $150 million or 1 percent over last year.

The total of budgetary payments from Canada to the corporations was lower than in the previous year by $160 million or 3 percent.

CORPORATE HIGHLIGHTS

In this section, the significant activities in 1988-89 are highlighted for a number of Crown corporations.

Air Canada: On October 13, 1988 Air Canada completed an initial public offering of treasury shares. Proceeds to the company, net of underwriters' fees, were $233.8 million. With the second public offering on July 19, 1989, Air Canada became a private company. Proceeds on this sale, net of underwriters' fees, were $473.8 million.

Atomic Energy of Canada Limited: Two divisions of Atomic Energy of Canada Limited were incorporated as Nordion International Inc. and Theratronics International Limited and were made wholly-owned subsidiaries of the Canada Development Investment Corporation. Legislation enabling the privatization of these two companies is now before Parliament.

Eldorado Nuclear Limited: The assets and business of *Eldorado Nuclear Limited* were merged on October 5, 1988 with those of the Saskatchewan Mining Development Corporation to form CAMECO-a Canadian Mining & Energy Corporation. The merger agreement anticipates that the federal and Saskatchewan governments will divest their shares in Cameco within seven years, market conditions permitting. Eldorado changed its name to Canada Eldor Inc. and is a subsidiary of Canada Development Investment Corporation.

Canada Mortgage and Housing Corporation (CMHC): Bill C-111 was passed in July 1988, amending the *National Housing Act* and the *Canada Mortgage and Housing Corporation Act*. The amendments support the introduction of new and enhanced mortgage insurance offerings and improve the administrative efficiency and cost-effectiveness of claim management and default settlement provisions within the Mortgage Insurance Fund. The Fund's actuarial deficit continued to decline from $258.1 million in 1987 to $116.1 million in December 1988.

Canada Post Corporation: Canada Post earned a $96 million profit from its 1988-89 operations, the first profit for the corporation since its creation in 1981. Mail volumes increased significantly and on-time delivery performance by the corporation improved over previous years.

Canadian National Railways: Due primarily to higher rail freight volumes and reduced expenditures, CN earned net income of $282.7M in 1988, more than double the $120.6M earned in 1987. The company's return on investment increased from 7.9 percent in 1987 to 10.3 percent in 1988. Two subsidiaries of CNR were sold in the latter half of 1988: Northwestel Inc. and Terra Nova Telecommunications Inc., with proceeds of $200 million and $170 million respectively). CNR's 50 percent interest in CNCP Telecommunications and Telecommunications Terminal Systems was also sold during the period with proceeds of $235 million. All proceeds were retained by the corporation and used to reduce long-term debt.

Export Development Corporation: In a highly competitive world trading environment, the Export Development Corporation substantially increased its support for Canadian exports. Financing support to exporters, up 42 percent in 1987, increased a further 65 per cent in 1988. Loans signed on Corporate Account increased from $673 million in 1987 to $1.1 billion in 1988. EDC also provided $4.1 billion in insurance coverage for exporters in 1988, a 15 percent increase over 1987.

National Capital Commission: Amendments to the *National Capital Commission Act* received Royal Assent in September 1988 and revised the National Capital Commission's mandate to recognize, in particular, its enhanced role in organizing, sponsoring and promoting public activities and events in the National Capital Region.

Petro-Canada: Although oil production continued at 1987 levels and new records were set for natural gas production, low prices resulted in poorer financial performance for Petro-Canada during the period under review. Net earnings were $94 million after an extraordinary writedown of $22 million (a 45 percent decline from the previous year), while cash from operations totalled $613 million (down 21 percent from 1987). Agreements were entered into which brought the development of the Hibernia offshore oil and OSLO oil sands projects closer to realization.

Ports Canada: Although the drought in the Prairies resulted in a disappointing year for grain traffic, volumes were higher in other commodities and revenues from operation of Ports Canada remained relatively stable at $171 million in 1988. Last year, the Canada Ports Corporation also instituted an interport loan mechanism that will enable the Ports Canada system to rely increasingly on its own funds to finance viable port projects.

VIA Rail: The April 1989 Budget reduced subsidies to VIA Rail over the next four years. Significant changes to VIA's network and services will be required in order to meet these newly established subsidy levels. VIA was asked to bring forward a new business plan covering various options including: increased fares; service reductions; and possible closure, sale or transfer of parts of the system.

OFFICIAL LANGUAGES

The Treasury Board Secretariat has been working with Crown corporations to ensure implementation of the 1988 *Official Languages Act*. Under the Act, the President of Treasury Board must submit an annual report to Parliament on the status of official languages programs in federal institutions. The 1988-89 and subsequent reports will include information on the application of the Act to Crown corporations.

EMPLOYMENT EQUITY

Crown corporations and other federally regulated business organizations are active in instituting employment equity. Their goal is the achievement, as a minimum, of a workforce reflecting the Canadian population for designated groups: women, aboriginal peoples, disabled persons and visible minorities.

Information from self-identification surveys in the statistical reports of Crown corporations for the calendar year ending December 1987 showed a workforce distribution where 25.9 percent were women, 0.9 percent were aboriginal peoples, 2 percent disabled persons, and 4 percent from visible minority groups.

Pursuant to the *Employment Equity Act*, detailed statistical data on employment equity in Crown corporations are published in government documents and are available in major public libraries.

CONCLUSION

In the 1988-89 period, the government continued its policies of privatizing Crown corporations in which public ownership is no longer required to meet public policy objectives and of promoting increased effectiveness and efficiencies through the management of its corporate holdings. These efforts will be pursued in the coming years.

Robert de Cotret

Ottawa, Canada
September 13, 1989

ANNUAL REPORT TO PARLIAMENT ON CROWN CORPORATIONS AND OTHER CORPORATE INTERESTS OF CANADA

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Statement of Responsibility

This Annual Report to Parliament on Crown Corporations and Other Corporate Interests of Canada is prepared under the direction of the President of the Treasury Board by the Crown Corporations Directorate of the Department of Finance and Treasury Board Secretariat. It responds to requirements of the *Financial Administration Act* that a consolidated report on the businesses and activities of parent Crown corporations, including information on all Crown corporations and other corporate interests of Canada, be tabled in Parliament. It is automatically referred to the Standing Committee on Public Accounts for review.

PART I

ANNUAL CONSOLIDATED REPORT
ON THE BUSINESSES AND ACTIVITIES
OF ALL PARENT CROWN CORPORATIONS

1. INTRODUCTION TO PART I

Part I of this Annual Report is a document of record on the financial affairs of all parent Crown corporations, comprised as follows:

- Tables 1 and 2 respond to subsection 151(3)(b) of the *Financial Administration Act* (FAA) in presenting for 56 Crown corporations aggregate financial and employment data relative to their individual financial years. The 56 are:

    - 45 parent Crown corporations contained in the listings of schedule III of the FAA during the twelve months ending July 31, 1989;

    - four subsidiaries of listed corporations which, by Orders pursuant to s. 86(2) of the FAA, were required to report their affairs as if they were parent Crown corporations (One of the four is no longer active and the Order requiring it to report has been rescinded.) and,

    - seven parent Crown corporations which, by s. 85(1) of the FAA are exempted from the provisions of divisions I to IV of Part X of the FAA. The eighth exempt corporation, the Bank of Canada, is excluded from these tables because of the unique nature of its assets, liabilities, etc.

- Table 3 presents financial data for the same 56 corporations but, in contrast to the previous tables, all of the data are as at the single date March 31, 1989.

- Audited financial statements are presented for the period covered by the report for each of the above 56 corporations and for the Bank of Canada. The statements of Air Canada to December 31, 1988 are also provided; this corporation is not listed in the tables because it ceased to be a Crown corporation in October, 1988 when the first sale of its shares to the public was effected.

- A Summary Page for each corporation precedes its financial statements. This page presents a financial summary of several years' performance of the particular corporation, along with basic information about the corporation.

2. PARENT CROWN CORPORATIONS: SUMMARY OF CORPORATION FINANCIAL AND EMPLOYMENT DATA

Description of Tables 1 and 2

Tables 1 and 2, which follow, respond to the requirement in the *Financial Administration Act* (FAA) that financial data, including employment and aggregate borrowing by corporations, be reported. The Act calls for data for individual corporations "for their financial years ending on or before July 31," 1989, and totals of these data, therefore, do not relate to a single 12-month period.

Data are presented for 56 corporations comprising: 45 corporations which were listed in schedule III of the FAA in the report period; four subsidiaries, (Petro-Canada International Assistance Corporation and three subsidiaries of Canada Lands Company Limited whose financial data are not consolidated in those of the parent), and seven of the eight corporations which, pursuant to s. 85 of the FAA, are exempted from scheduling. The other exempt corporation, the Bank of Canada, is excluded from the tables because of the unique nature of its financial data (see its Summary Page).

Reporting of data is on the following principles:

- **Year-end dates:** December year-ends relate to 1988; other year-ends relate to 1989, except for three corporations. See Note 2.
- **Employment data** describe the number of full-time employees at March 31, 1989. They relate to the parent corporation and all its subsidiaries. Special cases are listed in Note 5. Bank of Canada (2,200 employees) is excluded.
- **Net new borrowing data** comprise changes during the financial period in outstanding principal amounts of capital leases and long-term and short-term borrowings. The data are essentially on cash basis. To the extent possible, they do not include adjustments for exchange rate variations in the period and they take no account of forgiving of debt by Canada (important in 1987-88), or of transfer of assets and related debts such as those occurring between the port administrations.
- **Budgetary funding from Canada** comprises cash paid to the parent corporation and, as well, that paid directly to its subsidiaries unless a subsidiary is included in the table. Payments for which a class or kind of recipient is eligible are excluded from these data. (An example of such an exclusion is payments to railways under the *Maritime Freight Rates Act*.) Canada Post data include Department of Communications cultural and special mail subsidies (which are not included in the data on Canada Post Summary Page).
- **Shareholder's equity**. For four corporations, Canadian Dairy Commission, Canada Council, The Canadian Wheat Board and Freshwater Fish Marketing Corporation, the corporate mandate and operation cause the excess of assets over liabilities to be surplus which is due to clients and not Equity of Canada.

Table 3

This table provides basic information about the 56 corporations listed in tables 1 and 2 but, in contrast to those tables, these data are as at a single date, March 31, 1989, the closing day of government's financial year.

The data comprise:

- values for Total Assets and for Obligations, being principal amounts outstanding of short and long-term borrowings, bank loans, notes issued and capital leases. Values are derived from audited financial statements or, where a corporation's financial year ends on a date other than March 31, from schedules confirmed by the corporation's auditors; and
- the values recorded in the accounts of Canada as the outstanding balance of loans, investments and advances made by Canada to each corporation. Subject to any related reserve created in those accounts to ensure fair presentation of the financial position of Canada, the value recorded is an asset of Canada. The aggregate of the reserves in place in respect of all of these corporations is noted at the foot of this column of data.

Table 1

The financial position of parent Crown corporations

(Data as at year-end; for financial years ending on or before July 31, 1989; $ million.)

FAA Schedule	Year-end	Total Assets	Current Liabilities	Long Term Liabilities	Shareholder's Equity
III-I corporations:[1]					
Atlantic Pilotage Authority	December 31	1.9	0.7	0.7	0.5
Atomic Energy of Canada Limited	March 31	993.9	143.9	634.3	215.7
Canada Deposit Insurance Corporation[3]	December 31	731.9	2.5	1,746.5	(1,017.1)
Canada Harbour Place Corporation	March 31	69.3	0.4	nil	68.9
Canada Lands Company Limited	March 31	nil	nil	nil	nil
Canada Lands Company (Mirabel) Ltd.	March 31	1.2	1.2	nil	nil
Canada Lands Company (Le Vieux-Port de Montréal) Ltd.	March 31	1.8	1.8	nil	nil
Canada Lands Company (Vieux Port de Québec) Inc.	March 31	1.1	0.9	nil	0.2
Canada Mortgage and Housing Corporation	December 31	9,306.5	245.7	9,010.8	50.0
Canada Museums Construction Corporation Inc.	March 31	177.1	21.6	nil	155.5
Canadian Commercial Corporation	March 31	686.3	651.7	0.8	33.8
Canadian Dairy Commission[2]	July 31	222.8	222.8	nil	nil
Canadian Livestock Feed Board	March 31	2.4	2.2	0.2	negl.
Canadian National (West Indies) Steamships, Ltd.	December 31	1.3	0.3	nil	1.0
Canadian Patents and Development Limited	March 31	1.5	0.8	0.2	0.5
Canadian Saltfish Corporation	March 31	32.5	42.8	0.4	(10.7)
Cape Breton Development Corporation	March 31	534.0	85.1	nil	448.9
Defence Construction (1951) Limited	March 31	1.0	1.2	2.6	(2.8)
Enterprise Cape Breton Corporation	March 31	37.5	6.9	nil	30.6
Export Development Corporation	December 31	6,522.5	2,532.8	3,086.0	903.7
Farm Credit Corporation	March 31	4,031.7	75.8	4,627.1	(671.2)
Federal Business Development Bank	March 31	2,540.9	497.9	1,697.9	345.1
Freshwater Fish Marketing Corporation	April 30	28.6	28.6	nil	nil
Great Lakes Pilotage Authority, Ltd.	December 31	4.5	2.4	3.0	(0.9)
Harbourfront Corporation	March 31	35.0	4.1	nil	30.9
International Centre for Ocean Development	March 31	1.3	1.3	nil	negl.
Laurentian Pilotage Authority	December 31	4.7	4.9	0.7	(0.9)
Marine Atlantic Inc.	December 31	335.1	29.2	306.6	(0.7)
Mingan Associates, Ltd.	December 31	nil	nil	nil	nil
National Capital Commission	March 31	324.5	27.9	13.8	282.8
Pacific Pilotage Authority	December 31	4.5	1.3	0.4	2.8
Petro-Canada International Assistance Corporation	March 31	3.1	3.1	nil	negl.
St. Lawrence Seaway Authority, The	March 31	604.5	15.8	12.2	576.5
Standards Council of Canada	March 31	1.6	0.7	0.2	0.7
VIA Rail Canada Inc.	December 31	1,069.7	216.0	15.0	838.7
Total III-I corporations		28,316.2	4,874.3	21,159.4	2,282.5

III-II corporations:					
Canada Development Investment Corporation	December 31	1,093.9	636.8	318.6	138.5
Canada Ports Corporation	December 31	102.9	17.4	2.6	82.9
Canada Post Corporation	March 31	2,733.9	672.2	419.1	1642.6
Canadian National Railway Company	December 31	6,906.0	1,139.7	2,391.4	3,374.9
Halifax Port Corporation	December 31	65.0	2.5	4.1	58.4
Montreal Port Corporation	December 31	233.3	12.6	11.9	208.8
Petro-Canada	December 31	8,611.0	1,739.0	2,957.0	3,915.0
Port of Quebec Corporation	December 31	70.3	3.1	0.8	66.4
Prince Rupert Port Corporation	December 31	88.7	1.2	48.3	39.2
Royal Canadian Mint	December 31	121.4	90.3	21.3	9.8
Saint John Port Corporation	December 31	91.5	1.3	40.1	50.1
St. John's Port Corporation	December 31	16.9	1.4	3.2	12.3
Teleglobe Canada	December 31	2.9	0.2	nil	2.7
Vancouver Port Corporation	December 31	291.7	19.2	4.9	267.6
Total III-II corporations		20,429.4	4,336.9	6,223.3	9,869.2
Total Schedule III corporations		48,745.6	9,211.2	27,382.7	12,151.7
Exempt (Unscheduled) Corporations					
Canada Council	March 31	168.7	27.4	141.3	nil
Canadian Broadcasting Corporation	March 31	869.2	178.7	138.6	551.9
Canadian Film Development Corporation	March 31	35.0	10.6	0.2	24.2
Canadian Institute for International Peace and Security	March 31	2.2	0.4	nil	1.8
Canadian Wheat Board, The [2]	July 31	4,102.5	491.7	3,610.8	nil
International Development Research Centre	March 31	34.3	14.9	5.5	13.9
National Arts Centre Corporation	August 31	10.2	8.7	0.4	1.1
Total, exempt corporations		5,222.1	732.4	3,896.8	592.9
Grand Total, parent Crown corporations (except Bank of Canada)		53,967.7	9,943.6	31,279.5	12,744.6

See Notes following these tables.

Table 2

Employment, Borrowing and Budgetary Funding of Parent Crown corporation (for their financial years ending on or before July 31, 1989)

			In their financial years; $ million.		
			Net new borrowings, leases		Budgetary
FAA Schedule	Year-end	Employment	from (repaid to) private sector	from (repaid to) Canada	funding from Canada
III-I corporations:[1]					
Atlantic Pilotage Authority[5]	December 31	60	(0.2)	(0.1)	0.5
Atomic Energy of Canada Limited	March 31	4,274	(1.5)	(26.8)	203.1
Canada Deposit Insurance Corporation	December 31	53	(581.9)	488.7	nil
Canada Harbour Place Corporation	March 31	26	nil	nil	nil
Canada Lands Company Limited	March 31	nil	nil	nil	nil
Canada Lands Company (Mirabel) Ltd.	March 31	9	nil	nil	5.4
Canada Lands Company (Le Vieux-Port de Montréal) Ltd.	March 31	31	nil	nil	7.3
Canada Lands Company (Vieux Port de Québec) Inc.	March 31	nil	nil	nil	nil
Canada Mortgage and Housing Corporation	December 31	2,810	nil	(262.2)	1,529.0
Canada Museums Construction Corporation Inc.	March 31	23	nil	nil	68.0
Canadian Commercial Corporation	March 31	92	nil	nil	15.3
Canadian Dairy Commission[2,5]	July 31	63	nil	2.2	290.2
Canadian Livestock Feed Board	March 31	23	nil	nil	19.1
Canadian National (West Indies) Steamships, Ltd.	December 31	nil	nil	nil	nil
Canadian Patents and Development Limited	March 31	25	nil	nil	1.2
Canadian Saltfish Corporation	March 31	46	nil	12.2	nil
Cape Breton Development Corporation	March 31	3,281	nil	19.1	35.8
Defence Construction (1951) Limited	March 31	202	nil	(0.7)	14.0
Enterprise Cape Breton Corporation	March 31	37	nil	nil	3.4
Export Development Corporation[4]	December 31	510	(447.4)	(25.0)	nil
Farm Credit Corporation	March 31	625	nil	(229.2)	nil
Federal Business Development Bank	March 31	1,244	149.4	nil	63.4
Freshwater Fish Marketing Corporation[5]	April 30	50	(0.1)	12.0	nil
Great Lakes Pilotage Authority, Ltd.[5]	December 31	105	nil	nil	nil
Harbourfront Corporation	March 31	190	nil	nil	nil
International Centre for Ocean Development	March 31	36	nil	nil	8.0
Laurentian Pilotage Authority[5]	December 31	274	0.1	nil	1.6
Marine Atlantic Inc.	December 31	1,907	3.7	nil	138.0
Mingan Associates, Ltd.	December 31	nil	nil	nil	nil
National Capital Commission	March 31	806	nil	nil	91.3
Pacific Pilotage Authority[5]	December 31	61	nil	nil	nil
Petro-Canada International Assistance Corporation	March 31	34	nil	nil	60.5
St. Lawrence Seaway Authority, The	March 31	921	nil	nil	25.4

Standards Council of Canada	March 31	69	nil	nil	6.9
VIA Rail Canada Inc.	December 31	7,116	nil	nil	637.0
Total III-I corporations		25,003	(877.9)	(9.8)	3,224.4
III-II corporations:					
Canada Development Investment Corporation	December 31	6	nil	nil	nil
Canada Ports Corporation[5]	December 31	76	nil	12.6	2.8
Canada Post Corporation[4]	March 31	52,193	nil	80.0	250.1
Canadian National Railway Company	December 31	39,999	(877.1)	(11.3)	29.0
Halifax Port Corporation	December 31	89	nil	(0.2)	nil
Montreal Port Corporation	December 31	560	nil	(0.4)	nil
Petro-Canada	December 31	8,753	116.0	nil	nil
Port of Quebec Corporation	December 31	90	nil	nil	1.4
Prince Rupert Port Corporation	December 31	16	nil	nil	nil
Royal Canadian Mint	December 31	762	(0.1)	(3.0)	nil
Saint John Port Corporation	December 31	59	nil	nil	nil
St. John's Port Corporation	December 31	16	nil	0.8	nil
Teleglobe Canada	December 31	nil	nil	nil	nil
Vancouver Port Corporation	December 31	212	nil	(0.2)	nil
Total III-II corporations		102,831	(761.2)	78.3	283.3
Total Schedule III corporations		127,834	(1,639.1)	68.5	3,507.7
Exempt (Unscheduled) Corporations					
Canada Council	March 31	233	nil	nil	93.3
Canadian Broadcasting Corporation	March 31	10,571	(1.9)	nil	915.2
Canadian Film Development Corporation	March 31	160	nil	nil	128.9
Canadian Institute for International Peace and Security	March 31	35	nil	nil	5.0
Canadian Wheat Board, The [2,5]	July 31	434	(1,021.2)	nil	150.5
International Development Research Centre	March 31	465	nil	nil	114.2
National Arts Centre Corporation[5]	August 31	316	nil	nil	18.6
Total, exempt corporations		12,214	(1,023.1)	nil	1,425.7
Grand Total, parent Crown corporations (except Bank of Canada, 2,200 employees)		140,048	(2,662.2)	68.5	4,933.4

See Notes, following these tables.

Table 3

Financial data, as at March 31, 1989; parent Crown corporations, $million

FAA Schedule	From corporation financial statements: Total Assets	Outstanding Obligations of corporation: to the private sector	Outstanding Obligations of corporation: to Canada	Assets recorded in Canada's Accounts: Loans, Investments and Advances
III-I corporations:				
Atlantic Pilotage Authority	2.1	0.3	nil	nil
Atomic Energy of Canada Limited	993.9	20.6	573.8	668.7
Canada Deposit Insurance Corporation	673.4	nil	1,695.0	1,695.0
Canada Harbour Place Corporation	69.3	nil	nil	nil
Canada Lands Company Limited	nil	nil	nil	nil
Canada Lands Company (Mirabel) Ltd.	1.2	nil	nil	nil
Canada Lands Company (Le Vieux-Port de Montréal) Ltd.	1.8	nil	nil	nil
Canada Lands Company (Vieux Port de Québec) Inc.	1.1	nil	0.9	nil
Canada Mortgage and Housing Corporation	9,098.0	nil	8,879.2	8,904.2
Canada Museums Construction Corporation Inc.	177.1	nil	nil	nil
Canadian Commercial Corporation	686.3	nil	nil	nil
Canadian Dairy Commission	165.6	14.4	73.2	73.2
Canadian Livestock Feed Board	2.4	nil	nil	nil
Canadian National (West Indies) Steamships, Ltd.	1.3	nil	0.3	0.3
Canadian Patents and Development Limited	1.5	nil	nil	nil
Canadian Saltfish Corporation	32.5	nil	41.0	41.0
Cape Breton Development Corporation	534.0	nil	41.0	41.0
Defence Construction (1951) Limited	1.0	nil	0.3	nil
Enterprise Cape Breton Corporation	37.5	nil	nil	nil
Export Development Corporation[6]	6,461.5	4,175.2	nil	697.0
Farm Credit Corporation	4,031.7	1,328.2	3,254.2	3,472.3
Federal Business Development Bank	2,540.9	2,065.3	nil	294.0
Freshwater Fish Marketing Corporation	31.3	nil	16.5	16.5
Great Lakes Pilotage Authority, Ltd.	2.0	nil	nil	nil
Harbourfront Corporation	35.0	nil	nil	nil
International Centre for Ocean Development	1.3	nil	nil	nil
Laurentian Pilotage Authority	3.6	nil	nil	nil
Marine Atlantic Inc.	310.7	nil	nil	nil
Mingan Associates, Ltd.	nil	nil	nil	nil
National Capital Commission	324.4	nil	nil	nil
Pacific Pilotage Authority	4.4	nil	nil	nil
Petro-Canada International Assistance Corporation	3.1	nil	nil	nil
St. Lawrence Seaway Authority, The	604.5	nil	nil	nil

Standards Council of Canada	1.6	nil	nil	nil
VIA Rail Canada Inc.	1,059.0	nil	nil	9.3
Total III-I corporations	27,895.0	7,604.0	14,575.4	15,912.5
III-II corporations:				
Canada Development Investment Corporation	819.2	528.1	10.1	395.7
Canada Ports Corporation	112.9	nil	26.0	15.3
Canada Post Corporation	2,733.9	nil	80.0	80.0
Canadian National Railway Company	6,947.2	1,810.4	173.4	2,452.3
Halifax Port Corporation	66.5	nil	3.8	3.8
Montreal Port Corporation	225.9	nil	7.0	7.0
Petro-Canada	8,706.9	2,096.8	nil	4,299.1
Port of Quebec Corporation	69.8	nil	nil	nil
Prince Rupert Port Corporation	90.1	nil	48.3	nil
Royal Canadian Mint	119.3	nil	24.2	16.2
Saint John Port Corporation	92.0	nil	20.1	20.1
St. John's Port Corporation	16.4	nil	3.3	3.3
Teleglobe Canada	2.9	nil	nil	nil
Vancouver Port Corporation	288.2	nil	3.9	3.9
Total III-II corporations	20,291.2	4,435.3	400.1	7,296.7
Total Schedule III corporations	48,186.2	12,039.3	14,975.5	23,209.2
Exempt (Unscheduled) Corporations				
Canada Council	168.7	nil	nil	nil
Canadian Broadcasting Corporation	869.2	3.6	33.0	33.0
Canadian Film Development Corporation	35.0	nil	nil	nil
Canadian Institute for International Peace and Security	2.2	nil	nil	nil
Canadian Wheat Board, The[6]	4,492.4	4,176.8	nil	nil
International Development Research Centre	34.3	nil	nil	nil
National Arts Centre Corporation	8.4	nil	nil	nil
Total, exempt corporations	5,610.2	4,180.4	33.0	33.0
Grand Total, parent Crown corporations except Bank of Canada	53,796.4	16,219.7	15,008.5	23,242.2
Aggregate reserve in Canada's accounts pursuant to s. 63(2) of the FAA				4,400.0
Net recorded asset total.				18,842.2

See Notes, following these tables.

Notes to the Tables

Tables 1 and 2

1. Petro-Canada International Assistance Corporation and three subsidiaries of Canada Lands Company Limited are shown amongst III-I corporations since, though not scheduled in the report period, they had been directed, pursuant to s. 86(2) of the FAA, to report their affairs as if they were (III-I) parent Crown corporations.

2. Financial year ends; exceptional cases.

   Financial data presented are from audited financial statements for a period other than the report period, as follows:

   — Canadian Dairy Commission - 12 months ending July 31, 1988

   — The Canadian Wheat Board - 12 months ending July 31, 1988 and,

   the financial data of National Arts Centre Corporation relate to its financial year ending August 31, 1988, as envisaged by the provisions of law which call for this report.

3. The equity value for Canada Deposit Insurance Corporation takes account of the position of its Deposit Insurance Fund.

4. Funding data for Export Development Corporation are Corporate Account data. Budgetary funding to Canada Post Corporation includes cultural and special mail subsidies from the Department of Communications.

5. Employment data:

   - for Canadian Dairy Commission, Freshwater Fish Marketing Corporation, National Arts Centre Corporation and The Canadian Wheat Board are as at December 31, 1988.
   - for Canada Development Investment Corporation comprises employment in Eldorado Nuclear Limited and that in the parent corporation.
   - for Canada Ports Corporation do not include employment in the local port corporations named in these Tables.
   - for the four Pilotage Authorities include contract pilots.

Table 3

6. Obligations to the private sector of

   — The Canadian Wheat Board include financing provided by agents.

   — Export Development Corporation are net of the corporation's cash and securities held.

3. SUMMARY PAGES AND THE AUDITED FINANCIAL STATEMENTS FOR EACH PARENT CROWN CORPORATION

A Summary Page precedes the audited financial statements of each of the Crown corporations (54 parents and 4 subsidiaries).

Each Summary Page presents basic information about a corporation's mandate, origins and present status and names the senior officers as of September 1, 1989. As well, a financial summary provides information such as obligations (which comprise long-term and short-term loan principal outstanding and other funding to be repaid, plus capital leases) and details of the cash provided to the corporation and its subsidiaries by Canada. The non-budgetary amounts displayed in the financial summary have included equity infusions as well as loan funding.

Bracketed values ( ) denote: for equity, a deficit; for "cash from Canada, net", a net payment to the Consolidated Revenue Fund.

When the word *restated* is shown for a year's financial data, this indicates that changes made by the corporation in its audited financial data subsequent to the publication of its Annual Report for that year are reflected in the summary.

SUMMARY PAGE

AIR CANADA

MANDATE

The corporation's mandate in the role of parent Crown corporation ended in August 1988 with the issue to it of a certificate of continuance under the *Canadian Business Corporations Act* and the offer of its shares for sale to the public. Its articles of continuance contain constraints upon ownership of its shares and upon some aspects of its operations.

BACKGROUND

The corporation began operations in 1937. Until 1978, it was a subsidiary of CNR. In 1988 its revenues totalled $3.4 billion; its average employment totalled 22,600. No federal funds have been invested in Air Canada since the conversion to equity in 1978 of $324 million of its debt obligations to Canada. The *Air Canada Public Participation Act* which received Royal Assent on August 18, 1988 authorized the issue and sale of shares to the public. Treasury shares were sold in October 1988, reducing the Crown's share of equity to 57 percent, the proceeds accruing to Air Canada for its purposes. The entire equity of the Crown, represented by 41.1 million shares, was sold to financial institutions on July 19, 1989, yielding $472 million to the Consolidated Revenue Fund.

CORPORATION DATA

HEAD OFFICE	500 Dorchester Boulevard West Montreal, Quebec H2Z 1X5
STATUS	A private sector corporation since July 19, 1989
YEAR AND MEANS OF INCORPORATION	1937; by the *Trans Canada Airlines Act*, repealed and replaced by *Air Canada Act*, (R.S.C. 1985, c. A-10), which was repealed by the *Air Canada Public Participation Act* (S.C. 1988, c.44) on August 25, 1988 when a certificate of continuance under the *Canada Business Corporations Act* was issued to the corporation.

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1988	**1987**	**1986**	**1985 (restated)**
At the end of the year				
Total Assets	3,437	3,085	2,923	2,555
Obligations to the private sector	1,306	1,346	1,119	1,230
Obligations to Canada	130	154	176	196
Equity of Canada	530	599	553	513
Cash from Canada in the year				
— budgetary	nil	nil	nil	nil
— non-budgetary	nil	nil	nil	nil

Note: This corporation will not be included in future reporting in this Volume since Canada no longer has equity interest in Air Canada.

AIR CANADA

MANAGEMENT REPORT

The consolidated financial statements contained in this annual report have been prepared by management in accordance with generally accepted accounting principles and the integrity and objectivity of the data in these financial statements are management's responsibility. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the financial statements.

In support of its responsibility, management maintains a system of internal control to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets. The Corporation has an internal audit department whose functions include reviewing internal controls and their application, on an ongoing basis.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board, which is composed primarily of directors who are not employees of the Corporation. The Audit Committee meets with management, the internal auditors and the external auditors at least four times each year.

The external auditors, Thorne Ernst & Whinney, conduct an independent examination, in accordance with generally accepted auditing standards, and express their opinion on the financial statements. Their examination includes a review and evaluation of the Corporation's system of internal control and appropriate tests and procedures to provide reasonable assurance that the financial statements are presented fairly. The external auditors have full and free access to the Audit Committee of the Board and meet with it on a regular basis.

Pierre J. Jeanniot,O.C.
President & Chief
Executive Officer

W.J. Reid
A/Executive Vice President
Finance & Planning

AUDITORS' REPORT

TO THE SHAREHOLDERS OF AIR CANADA

We have examined the consolidated balance sheet of Air Canada as at December 31, 1988 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Ernst & Whinney
Chartered Accountants

Montreal, Canada
February 10, 1989

CONSOLIDATED BALANCE SHEET DECEMBER 31
(in millions of dollars)

ASSETS	1988	1987
Current		
Cash and short-term investments	356	223
Accounts receivable	536	414
Spare parts, materials and supplies	125	131
Prepaid expenses	16	16
Deferred income taxes	31	36
	1,064	820
Property and equipment (Note 2)	1,679	1,665
Investment in other companies (Note 3)	251	154
Deferred charges and other assets (Note 4)	443	445
	3,437	3,084

LIABILITIES	1988	1987
Current		
Accounts payable and accrued liabilities	419	427
Advance ticket sales	188	186
Current portion of long-term debt and capital lease obligations	66	67
	673	680
Long-term debt and capital lease obligations (Note 5)	1,034	1,097
Other long-term liabilities	31	28
Deferred credits (Note 7)	424	335
	2,162	2,140
Minority interest	10	9
Subordinated perpetual bonds (Note 8)	336	336
SHAREHOLDERS' EQUITY		
Share capital (Note 9)		
Authorized: unlimited number of common shares, Class A preferred shares, and Class B preferred shares		
Issued and fully paid: 71,895,594 common shares	563	329
Retained earnings	366	270
	929	599
	3,437	3,084

See accompanying notes.

On behalf of the Board:

CLAUDE I. TAYLOR,O.C.
Chairman of the Board

PIERRE J. JEANNIOT,O.C.
President & Chief ExecutiveOfficer

AIR CANADA—*Continued*

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
YEAR ENDED DECEMBER 31
(in millions of dollars)

	1988	1987
Operating revenues		
Passenger	2,596	2,383
Cargo	503	412
Other	327	336
	3,426	3,131
Operating expenses		
Salaries, wages and benefits	1,101	954
Aircraft fuel	481	467
Depreciation, amortization and obsolescence	148	192
Other	1,571	1,414
	3,301	3,027
Operation income	125	104
Non-operating income (expense)		
Interest on long-term debt and capital lease obligations	(116)	(129)
Gain on disposal of assets	79	30
Other	47	51
	10	(48)
Income before income taxes, minority interest and extraordinary item	135	56
Provision for income taxes (Note 10)	(37)	(10)
Minority interest	1	
Income before extraordinary item	99	46
Extraordinary item (Note 11)	(3)	
Net income	96	46
Retained earnings at beginning of year	270	224
Retained earnings at end of year	366	270
Earnings per share (Note 12)		

See accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31
(in millions of dollars)

	1988	1987
Cash provided by (used for)		
Operations		
Income before extraordinary item	99	46
Extraordinary item	(6)	
Non-cash items included in net income	32	97
Income results	125	143
Change in net trade balances	(126)	(35)
Change in spare parts, materials and supplies	(9)	(31)
Increase (decrease) in advance ticket sales	2	(3)
Other	(12)	14
	(20)	88
Financing		
Issue of common shares	236	
Long-term borrowings	75	76
Repayment of long-term debt and capital lease obligations	(71)	(139)
Other	(89)	(53)
	151	(116)
Investments		
Proceeds form disposal of assets	517	294
Additions to property and equipment	(516)	(199)
Investment in subsidiaries and other companies	(7)	(232)
Dividends received	8	6
	2	(131)
Increase (decrease) in cash position	133	(159)
Cash position at beginning of year	223	382
Cash position at end of year	356	223

Cash position consists of cash and short-term investments.
See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of dollars)

1. Significant accounting policies

(a) Consolidation and investment in other companies

The consolidated financial statements of the Corporation include the accounts of Air Canada and its subsidiaries, Touram Inc., enRoute Card Inc., enRoute Card International Inc., Air Ontario Inc., AirBC Limited, Express Messenger Systems, Inc., Northern Express Messenger Systems Ltd., Air Alliance Inc., Northwest Territorial Airways Ltd., and 395259 Alberta Ltd. The investment in Gelco Express Limited has been recorded in the 1988 consolidated balance sheet on the equity basis (consolidated in 1987 comparative figures) as a result of a plan for its disposal (Note 14). The results of operations of this subsidiary have been consolidated with those of the Corporation for both 1987 and 1988. All inter-company transactions have been eliminated.

Investments in other companies are accounted for on equity basis.

The excess of the acquisition cost of investment in subsidiaries and other companies over the Corporation's proportionate share of the underlying value of the net assets at dates of acquisition, represents goodwill and is amortized over periods not exceeding 25 years.

(b) Foreign currency translation

Monetary assets and liabilities in foreign currencies, with the exception of subordinated perpetual bonds, are translated at month-end exchange rates. Gains or losses are included in income of the year, except gains or losses relating to long-term debt and capital lease obligations which are deferred and amortized over the remaining life of the debt or obligation. In 1988 the Corporation acquired zero coupon bond investments to fund the deferred foreign currency exchange loss on certain Swiss Franc and Japanese Yen debt. Accordingly, deferred foreign exchange losses equalling the amount of future interest on these investments have been segregated and will be amortized to income at amounts equal to the interest earned on the zero coupon bonds. The maturity dates of the investments closely match the repayment dates of the related debt.

Other assets and liabilities, subordinated perpetual bonds and items affecting income are converted at rates of exchange in effect at the date of the transaction.

AIR CANADA—*Continued*

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS—*Continued*

(c) Spare parts, materials and supplies

Spare parts, materials and supplies are valued at average cost. A provision for the obsolescence of flight equipment spare parts is accumulated over the estimated service lives of the related flight equipment.

(d) Gains on sale and leaseback of assets

Gains on sale and leaseback of assets are deferred and amortized to income over the terms of the leases as a reduction in rental expense.

(e) Airline revenue

Airline passenger and cargo sales are recognized as operating revenues when the transportation is provided. The value of unused transportation is included in current liabilities.

(f) Pension expense

Pension expense consists of the actuarially computed costs using management's best estimate assumptions of the pension benefits in respect of the current year's service, imputed interest on plan assets and pension obligations, and straight-line amortization of experience gains or losses, assumption changes and plan amendments, over the average remaining service life of the employee group.

(g) Maintenance

Maintenance and repairs are charged to operating expenses as incurred, except for significant modification costs which are capitalized.

(h) Depreciation and amortization

Operating property and equipment, including assets under capital lease, are depreciated or amortized to estimated residual value based on the straight-line method over their estimated service lives. Estimated service lives for flight equipment range from 12 to 20 years, except when extended by significant modifications. Estimated service lives for other property and equipment range from 3 to 40 years.

(i) Interest capitalized

Interest on funds used to finance the acquisition of new flight equipment and other property and equipment is capitalized for periods preceding the dates the assets are put into service.

(j) Investment tax credits

Investment tax credits related to assets acquired prior to 1985 are recognized in income net of applicable deferred income taxes, using the flow through method in the year in which the credits are claimed for tax purposes. Investment tax credits related to assets acquired after 1984 are recognized as a reduction of the cost of property and equipment in the year of acquisition.

2. Property and equipment

	December 31	
	1988	1987
Cost		
Flight equipment	2,090	2,066
Flight equipment under capital lease	185	257
	2,275	2,323
Other property and equipment	731	703
	3,006	3,026
Accumulated depreciation and amortization		
Flight equipment	830	810
Flight equipment under capital lease	134	205
	964	1,015
Other property and equipment	489	447
	1,453	1,462
	1,553	1,564
Progress payments	126	101
Property and equipment at net book value	1,679	1,665

Interest capitalized during the year amounted to $11 (1987—$3).

During the year, 26 B-727 aircraft were sold on a forward basis with delivery commencing in 1990 and extending over 3 years. These aircraft, which have a net book value of $35 at December 31, 1988, will be removed from property and equipment as they are delivered. The residual value of these aircraft, previously estimated in accordance with the Company's acoounting policy (Note 13), has now been determined by the terms of the sales agreement. As a result, depreciation expense in 1988 has been adjusted, and these aircraft will be fully depreciated to their revised residual values by delivery, so that there will be no gain or loss on sale.

3. Investment in other companies

Investment in other companies includes Gelco Express Limited (1988 only—100%), GPA Group Limited (22.39%), The Gemini Group Limited Partnership (50%), and other companies (30.3% to 50.0%).

The Corporation's share of the earnings of these companies, except Gelco Express Limited, has been included in other non-operating income and amounted to $34 (1987—$26). The earnings of Gelco Express Limited have been fully consolidated (Note 14). During the year, the Corporation recorded a $15 gain disposal of assets resulting from dilution of its investment in GPA Group Limited.

4. Deferred charges and other assets

	December 31	
	1988	1987
Foreign currency exchange losses on long- term debt	103	151
Employer pension plan contributions in excess of amounts included in income	163	115
Bond issue costs	44	49
Goodwill (Note 14)	40	94
Zero coupon bonds to fund deferred foreign exchange	28	
Other	65	36
Deferred charges and other assets	443	445

Amortization of deferred charges for the year amounted to $20 (1987—$29).

AIR CANADA—*Continued*

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS—*Continued*

5. Long-term debt and capital lease obligations

Long-term debt	Final maturity	Interest rate (%)	December 31 1988	December 31 1987
			$	$
U.S. dollar (a)	1991-96	8.0-9.7	374	452
Canadian dollar				
Government of Canada	1993	7.2	130	154
Other	1990-2000	Various	183	125
Swiss franc bonds (b)	2002	5.125	159	204
Deutsche mark bonds (c)	1992-93	7.38-9.0	135	165
Japanese yen bonds (d)	1995	7.3	143	161
U.K. sterling bonds (e)	1994	11.25	70	70
French franc notes	1993	9.25	18	29
Deferred foreign exchange (c)			(37)	(68)
In-substance defeasance (Note 6)			(131)	(159)
Net long-term debt			1,044	1,133
Capital lease lease obligations				
Future minimum lease payments net of amounts defeased (Note 6)			10	23
Interest and holdbacks			(1)	(8)
Net present value of capital lease obligations			9	15
Net long-term debt and capital lease obligations (f)			1,053	1,148
Current portion			(66)	(67)
Net value of related long-term forward exchange contracts			47	16
Long-term debt debt and capital lease obligations			1,034	1,097

At December 31, 1988, Air Canada had the following financing facilities established on an unsecured basis, against which there were no drawings:

—$200 revolving and term credit agreements with two Canadian chartered banks. The revolving and term periods are three and five years respectively.

—up to U.S. $400 from a group of Japanese financial institutions, for a total term of 15 years commencing with availability in 1990.

—up to U. S. $400 from a Euro Note Issuance Facility with an initial term of eight years, including a three year fully revolving availability period, extendible yearly by mutual agreement.

In addition, Air Canada had received commitments for the following financing facilities:

—up to U.S. or Canadian $400 from a group of financial institutions in Canada with an initial term of eight years, including a four year fully revolving availability period, followed by a four year reducing revolving availability period, extendible yearly by mutual agreement. This arrangement when finalized will replace the existing $200 revolving and term credit agreements with two Canadian chartered banks.

—up to U.S. $200 related to the acquisition of Airbus A320 aircraft, for a term of 15 years from drawdown, available pro-rata on the delivery of certain of the A320 aircraft.

Subsidiaries have similar financing agreements totalling $60 of which $23 was drawn down as at December 31, 1988.

Capital leases are recorded at the present value of the lease payments using the interest rate implicit in the lease. The average implicit interest rate of these obligations is 7.6% and their expiry dates are from 1989 to 1991.

(a) Essentially all the U.S. debt is covered by long-term U.S. currency forward exchange contracts. An interest rate swap agreement for U.S. $50 in notional principal expires in 1990. In this agreement the Corporation has assumed the variable interest rate position adjusted quarterly to the prevailing LIBOR rate against a 10.36% fixed interest rate position assumed by a third party.

(b) These bonds may be called by the Corporation at a premium until 1997 and at par thereafter.

(c) In February 1987, the Corporation concluded an agreement with a German bank pursuant to which it issued to the bank Deutsche mark 200 million of 6 3/8% interest adjustable subordinated perpetual bonds in consideration for which the bank will convert the existing Deutsche mark 200 million long-term debt into these subordinated perpetual bonds and fund the interest payment requirements on these perpetual bonds until conversion in 1992 and 1993. The principal component of the subordinated perpetual bonds will be recorded in the accounts upon actual conversion and until such time, the Corporation is contingently liable for such obligations. The perpetual bonds are unsecured. The interest rate will be 6 3/8% until 1994 and reset for each subsequent 3 year period based on an interest rate index. The perpetual bonds may be called by the Corporation on each interest rate reset date at par. As a result of this transaction, the deferred foreign exchange position in respect of the Deutsche mark 200 million of existing long-term debt ($37 deferred loss as at December 31, 1988) will no longer be amortized to income. Upon conversion, any then existing deferred foreign exchange gain or loss will be applied against the value of the perpetual bonds.

(d) In October 1987, the Corporation concluded an agreement with a financial institution pursuant to which it issued JYE 15 billion of 5.8% interest adjustable 20 year notes in consideration for which the institution will convert the existing JYE 15 billion long-term debt into these notes and fund the interest payment requirement on these notes until conversion in 1990. The principal component of these notes will be recorded in the accounts upon actual conversion and until such time, the Corporation is contingently liable for such obligations. The interest rate will be reset in 2002 based on an interest rate index. These notes are unsecured and may be called by the Corporation at a premium until 1997 and at par thereafter.

AIR CANADA—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—*Continued*

(e) The Corporation has a currency swap agreement with a Canadian bank which has the effect of extinguishing future exchange fluctuations of the Sterling debt and interest.

(f) All debt is unsecured with the exception of subsidiaries' debt totaling $183, which is secured by certain of their assets. Various obligations contain covenants which, in certain circumstances, could require the furnishing of satisfactory security or alternatively prepayment in the event that the votes attaching to the Government of Canada's shareholding fall below 51%. The Corporation believes that satisfactory security can be provided either at no cost or at a cost that would not be material to the Corporation in any given year.

Repayment requirements for the next five years, net of defeasance and incorporating the above noted debt extensions, are as follows:

	1989	1990	1991	1992	1993
Long-term debt ..	59	65	64	64	65
Capital lease obligations	7	3			

6. In-substance defeasance

The Corporation has deposited government securities in irrevocable trusts, solely to satisfy the scheduled interest and principal repayment requirements of $275 in long-term debt and capital lease obligations. These obligations, which at December 31, 1988 amounted to $131 (1987—$159) in long-term debt and $16 (1987—$43) in capital lease obligations, are considered extinguished for financial reporting purposes and, together with the related securities, have been removed from the Corporation's balance sheet.

7. Deferred credits

	December 31	
	1988	1987
Gain on sale and leaseback of assets	260	212
Income taxes	138	106
Other	26	17
Deferred credits	424	335

8. Subordinated perpetual bonds

	December 31	
	1988	1987
300 million Swiss francs at 6 1/4% Callable in year 2001 every fifth year thereafter at 102% of par	202	202
200 million Swiss francs at 5 3/4% Callable at 101 1/2% of par in year 1999 and every fifth year thereafter at 102% of par	134	134
Subordinated perpetual bonds	336	336

The maturity of these bonds is only upon the liquidation, if ever, of the Corporation. Principal and interest payments on these bonds are subordinated to the prior payment in full of all indebtedness for borrowed money. Since it is not probable that circumstances will arise requiring redemption of the bonds and since, under present circumstances, it is not probable that the Corporation will call the bonds, they are valued at the historical exchange rate and no provision is made for foreign exchange fluctuations. Based on the Canadian dollar/Swiss franc exchange rate as at December 31, 1988, the Canadian dollar equivalent of 500 million Swiss francs is $397.

9. Share capital

The authorized capital of the Corporation consists of an unlimited number of common shares, Class A preferred shares issuable in series and Class B preferred shares issuable in series. Issued capital consists of common shares and the changes in the outstanding number of such shares and their aggregate stated value during the year are as follows:

	Number of shares	Amount
Outstanding at beginning of year	329,009	329
Adjustment to reflect share split on a 125 to 1 basis September 1988	40,797,116	
	41,126,125	329
Issued for cash in October 1988 net of issue costs of $11 after tax	30,769,469	234
	71,895,594	563

(a) Included in the public share issue in October, 1988 were 5,165,877 common shares issued to the trustee for eligible employees, retirees and executives pursuant to share purchase plans established by the Corporation. Of these, 1,301,707 shares were issued at a 10% discount from the public offering price of $8.00 a share. In addition, there are 2,151,437 matched shares reserved for issuance to eligible employees at $0.01 per share. Subject to continuing eligibility, employees have the right to purchase 50% of such shares in October, 1989 and the balance in October, 1990.

(b) Certain shares under the employee share purchase plans were funded by $26 of non-interest bearing loans from the Corporation. The balance outstanding at December 31, 1988 amounted to $24.

(c) The Corporation has adopted a stock option plan under which eligible executives of Air Canada will be entitled to receive common share purchase options at a price not less than the market value of the shares at the date of granting. Options to acquire 723,272 common shares at $8.00 per share have been granted during the year. These options are exercisable in the amount of 33 1/3% of the shares per year on a cumulative basis, commencing in 1989.

10. Income taxes

The Corporation's income tax provision (recovery) consists of the following:

	Year ended December 31	
	1988	1987
Current		(2)
Deferred	37	12
Provision for income taxes	37	10

Income tax expense differs from the amount which would be obtained based on the combined basic Canadian federal and

AIR CANADA—*Continued*

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS—*Continued*

provincial income tax rate. These differences result from the following items:

	1988	1987
Provision based on combined rate	57	26
Tax exempt earnings of related companies	(13)	(11)
Lower effective income tax rate on capital (gains) losses	(5)	(6)
Investment tax credits, net of deferred income tax of $4	(5)	
Non-deductible expenses	3	
Subsidiary company losses for which no tax benefit recorded		1
Provision for income taxes	37	10

11. Extraordinary item

Provision for the cost of a major staff reduction program amounted to $3 after deducting deferred income taxes of $3.

12. Earnings per share

	Year ended December 31	
	1988	1987
Basic		
Income before extraordinary item	2.07	1.11
Extraordinary item	(0.07)	
Net income	2.00	1.11
Fully diluted		
Income before extraordinary item	1.85	0.92
Extraordinary item	(0.07)	
Net income	1.78	0.92

Earnings per share has been calculated using the weighted average number of common shares outstanding during the year after giving retroactive effect to the stock split in September, 1988. The calculation of fully diluted earnings per share was based on the assumed exercise of outstanding rights and share options relating to the Corporation's share capital (Note 9) together with the effect on consolidated income of similar dilutive factors in subsidiaries and other companies accounted for on the equity basis.

13. Change in accounting estimates and other adjustments

(a) Effective January 1, 1988 the Corporation increased the estimated residual values of substantially all of its aircraft and the estimated service lives of B-767 aircraft in the determination of 1988 depreciation expense. This change increased 1988 net income by $16 after deducting deferred income taxes of $12.

(b) Certain comparative figures have been reclassified to conform to the accounting presentation adopted in 1988.

14. Subsidiaries

(a) Acquisition

During the year the Corporation used the purchase method to account for its acquisition of a 90% interest in Northwest Territorial Airways Ltd. The net assets acquired and consideration given are summarized as follows:

Net assets at acquisition, at assigned values	3
Minority interest	
Net tangible assets acquired	3
Goodwill	10
Cash consideration	13

Consolidated net income includes the operating results of this subsidiary from the date of acquisition.

(b) Gelco Express Limited

In February 1989, th Corporation entered into an agreement to sell its overnight small parcel door-to-door business and the overnight business of its subsidiary, Gelco Express Limited, in exchange for a 22% equity interest in Purolator Courier Limited and other consideration. Based on the terms of the agreement, which is expected to close in March, no gain or loss on disposal of these assets will be recorded by the Corporation. Consolidated operating income of the Corporation includes approximately $7 losses from the business activities included in the sale transaction.

Subsequent to the acquisition of Gelco Express Limited by the Corporation in 1987, events disclosed discrepancies in the value of its assets at acquisition. The Corporation has threatened legal action for substantial damages and discussions are continuing with the objective of negotiating a settlement. Recoveries will be recorded as a reduction of certain of the Corporation's courier business investments or otherwise as is appropriate.

15. Commitments

The Corporation has commitments to purchase aircraft and spare engines for U.S. $1,501 and CDN $245. Other commitments for property, ground equipment and spare parts, amounted to approximately $61 Canadian.

Future minimum lease payments under operating leases of aircraft and other property total $1,932 and are payable as follows:

1989	172
1990	157
1991	152
1992	150
1993	130
Remaining years	1,171

The Corporation has commitments related to use of travel awards by members of Aeroplan, its frequent flyer program. It is estimated that the incremental cost of honouring all commitments under the program would be less than $18, net of income taxes of $12 which is not material in relation to the Corporation's financial position or the results of its operations.

16. Pension plans

Air Canada and its subsidiaries maintain several defined benefit pension plans. Based on the latest actuarial reports prepared as of December 31, 1987 using management's best estimate assumptions, the present value of the accrued pension benefits as at December 31, 1988 amounted to $2,038, and the market value of the net assets available to provide these benefits was $2,550.

AIR CANADA—*Concluded*

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS—*Concluded*

17. Contingencies

Various lawsuits and claims are pending by and against the Corporation. It is the opinion of the management supported by counsel that final determination of these claims will not materially affect the financial position or the results of the Corporation.

Under aircraft sale and leaseback agreements, the Corporation may be required to provide residual value support not exceeding $224. Independent appraisals have indicated it is unlikely the Corporation will be required to provide this support.

18. Related party transactions

In the ordinary course of business, the Corporation enters into transactions with related parties including the Government of Canada, its agencies anf Crown Corporations. The Corporation derives revenues from related parties for passenger, cargo and other services. Expenses with related parties include landing fees, terminal assessments, taxes and interest on long-term debt. Account balances resulting from these transactions are included in the balance sheet and are settled on normal trade terms.

19. Segmented information

The Corporation's primary business is the transportation of passengers and cargo on scheduled airline services over routes authorized by the National Transportation Agency of Canada. Principal assets are located in Canada with substantially all of the operations involving flights within, to or from Canada.

20. Act of incorporation and legislative provisions

On August 25, 1988 the Corporation ceased operating under the Air Canada Act, 1977, as amended, and was continued pursuant to Articles of Continuance under the provisions of the Canada Business Corporations Act. On October 13, 1988 the Corporation issued common shares to the public and at that time, ceased to be a Crown Corporation.

The foregoing was authorized by the Public Participation Act which came into force on August 18, 1988. Under provisions of this Act, the Corporation's Articles of Continuance include limits on individual and aggregate non-resident public ownership of voting shares of 10 percent and 25 percent respectively, which includes associates of such shareholders.

21. Subsequent events

(a) Air Canada has finalized plans to purchase seven Boeing 747-400 combination aircraft. The three ordered including associated spare parts and equipment are valued at approximately $600 with delivery between December 1990 and May 1991. Four options to purchase are available to complete the planned acquisition at a later date.

(b) Effective January 1, 1989, the Corporation will change its method of accounting for its investment in GPA Group Limited from the equity method to the cost method. This change is a result of anticipated dilution in its percentage shareholding and other factors. Under the equity method the Corporation recorded its appropriate share of GPA Group Limited's earnings in non-operating income and under the cost method it will record only dividends.

SUMMARY PAGE

ATLANTIC PILOTAGE AUTHORITY

MANDATE

To establish, operate, maintain and administer in the interests of safety, an efficient pilotage service within designated waters in and around the Atlantic provinces.

BACKGROUND

Established in 1972, the Authority provides pilotage services and has the power to make regulations, subject to the approval of the Governer in Council, which establish compulsory pilotage areas; prescribe the ships/classes of ships that are subject to compulsory pilotage, the circumstances under which compulsory pilotage may be waived and pilotage tariffs; and which cover the licensing of pilots and issuance of pilotage certificates. Tariffs must be fair and reasonable and sufficient to permit the Authority to operate on a self-sustaining financial basis.

CORPORATION DATA

HEAD OFFICE	Suite 1203 Bank of Montreal Tower 5151 George Street Halifax, Nova Scotia B3J 1M5
STATUS	— Schedule III, Part I — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Benoît Bouchard, P.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1972; pursuant to the *Pilotage Act* (R.S.C. 1985, c. P-14).
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	C.R. (Ted) Worthington
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1988	1987	1986	1985
At the end of the year				
Total Assets	1.9	2.0	1.4	1.2
Obligations to the private sector	nil	0.2	0.1	0.3
Obligations to Canada	0.2	0.3	0.4	0.4
Equity of Canada	0.5	negl.	(0.3)	(0.6)
Cash from Canada for the year				
— budgetary	0.5	0.4	0.5	0.6
— non-budgetary	nil	nil	nil	nil

ATLANTIC PILOTAGE AUTHORITY

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have examined the balance sheet of Atlantic Pilotage Authority as at December 31, 1988 and the statements of operations, contributed capital, deficit, and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Authority as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Pilotage Act and regulations, and the by-laws of the Authority.

Raymond Dubois, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
February 23, 1989

BALANCE SHEET AS AT DECEMBER 31, 1988

ASSETS	1988	1987
	$	$
Current		
Cash	53,143	350
Accounts receivable	744,439	975,337
Prepaid expenses	15,246	16,153
	812,828	991,840
Fixed, at cost (Note 4)	1,883,785	1,867,967
Less: accumulated depreciation	786,984	854,902
	1,096,801	1,013,065
	1,909,629	2,004,905

LIABILITIES	1988	1987
	$	$
Current		
Bank indebtedness		185,970
Accounts payable and accrued liabilities	489,896	766,891
Obligation under capital lease agreements (Note 5)	99,420	91,574
Current portion of accrued employee termination benefits	65,423	52,864
	654,739	1,097,299
Long-term		
Accrued employee termination benefits	618,591	671,285
Obligation under capital lease agreements (Note 5)	95,880	195,300
	714,471	866,585
	1,369,210	1,963,884
Commitments and contingency (Note 8)		
CONTRIBUTED CAPITAL AND DEFICIT		
Contributed capital	1,606,516	1,271,810
Deficit	(1,066,097)	(1,230,789)
	540,419	41,021
	1,909,629	2,004,905

Approved by the Authority:

C. R. WORTHINGTON
Chairman

HORTON WINTERS
Member

M. R. McGRATH
Treasurer

ATLANTIC PILOTAGE AUTHORITY—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1988

	1988	1987
	$	$
Income		
Pilotage charges	7,065,895	6,336,404
Interest and other income	37,755	36,743
	7,103,650	6,373,147
Expenses		
Pilots' fees, salaries and benefits	3,337,750	3,144,347
Pilot boats, operating costs	2,279,776	2,085,750
Staff salaries and benefits	394,004	375,411
Transportation and travel	357,891	287,381
Professional and special services	251,673	227,885
Rentals	119,498	110,908
Depreciation	102,623	88,665
Utilities, materials and supplies	84,764	72,246
Communications	81,619	85,176
Interest on capital leases	22,015	29,448
Sundry	16,650	15,270
	7,048,263	6,522,487
Net profit (loss) for the year	55,387	(149,340)

STATEMENT OF CONTRIBUTED CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 1988

	1988	1987
	$	$
Balance, beginning of the year	1,271,810	933,988
Parliamentary appropriation to finance (Note 3(a))		
Additions to fixed aasets	243,132	253,482
Principal payments on capital leases	91,574	84,340
	334,706	337,822
Balance, end of the year	1,606,516	1,271,810

STATEMENT OF DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 1988

	1988	1987
	$	$
Balance, beginning of the year	1,230,789	1,203,362
Net (profit) loss for the year	(55,387)	149,340
	1,175,402	1,352,702
Parliamentary appropriation to finance cash operating loss (note 3 (a))	109,305	121,913
Balance, end of the year	1,066,097	1,230,789

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1988

	1988	1987
	$	$
Operating activities		
Cash provided by (used for) operations		
Net profit (loss) for the year	55,387	(149,340)
Items not requiring cash		
Depreciation	102,623	88,665
Increase in accrued employee termination benefits	70,495	60,102
	228,505	(573)
Cash provided by (used for) non cash working capital	(45,190)	56,420
Employee termination benefits payments	(110,630)	(108,732)
Cash provided by (used for) operating activities	72,685	(52,885)
Financing activities		
Parliamentary appropriation to finance (Note 3(a))		
Cash operating loss	109,305	121,913
Fixed asset additions	243,132	253,482
Principal payments on capital leases	91,574	84,340
	444,011	459,735
Principal portion of capital lease payments	(91,574)	(84,340)
Increase (decrease) in bank indebtedness	(185,970)	74,515
Cash provided by financing activities	166,467	449,910
Investing activities		
Additions to fixed assets	(186,359)	(396,978)
Cash (used for) investing activities	(186,359)	(396,978)
Increase in cash during the year	52,793	47
Cash, beginning of the year	350	303
Cash, end of the year	53,143	350

ATLANTIC PILOTAGE AUTHORITY—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988

1. Objectives and activities

The Atlantic Pilotage Authority (the "Authority") was established on February 1, 1972 pursuant to the Pilotage Act. The objects of the Authority are to establish, operate, maintain and administer a safe and efficient pilotage service within designated Canadian waters. The Act provides that pilotage tariffs shall be fair, reasonable and sufficient, together with any revenue from other sources, to permit the Authority to operate on a self-sustaining financial basis.

The Authority is a Crown corporation listed in Schedule III, Part I of the Financial Administration Act and is not subject to income tax under the provisions of the Income Tax Act.

2. Significant accounting policies

(a) Parliamentary appropriation

When revenues are not sufficient to permit the Authority to operate on a self-sustaining financial basis, the Authority requests parliamentary appropriations to recover cash operating losses. These appropriations are recorded in the accounts when approved by Parliament and are reflected in the statement of deficit.

Parliamentary appropriations to finance capital assets and the principal portion of payments under capital lease agreements are shown as contributed capital when approved by Parliament.

(b) Depreciation

Depreciation of fixed assets is calculated on a straight-line basis and is based on the estimated useful life of the assets as follows:

Pilot boats	20 to 25 years
Furniture and equipment	5 to 10 years

(c) Capital leases

The Authority leases pilot boats from Canada under long term financing leases. Under the terms of the lease agreements, the Authority assumes the rights and obligations of ownership. As a result, the leases are treated as purchases and the principal portion of lease payments is capitalized and depreciated over the estimated useful lives of the boats. The corresponding liability is reduced by the principal portion of lease payments and the interest portion is expensed in the year to which it relates.

(d) Pension plan

All employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. Contributions with respect to current service are expensed in the current period. Contributions with respect to past service benefits are expensed when paid, generally over the remaining years of service of the pilots.

(e) Employee termination benefits

Employees are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these benefits is recorded as they accrue to the employees.

3. Parliamentary appropriation

(a) On March 27, 1988, the Government of Canada provided, through Appropriation Act No. 6, 1987-88, for the 1987 cash operating loss and capital expenditures of the Authority. An amount of $444,011 was received in 1988 by the Authority in respect of this appropriation.

(b) On February 14, 1989, Treasury Board approved the Authority's application, in the amount of $528,000, to include an item in Supplementary Estimates for 1988-89 for the 1988 capital expenditures and the estimated cost of an additional pilot boat. The amounts are as follows:

	$
Pilot boat	310,000
Fixed asset additions	68,484
Principal payments for capital leases	99,420
	477,904

4. Fixed assets

	1988			1987
	Cost	Accumulated depreciation	Net	Net
	$	$	$	$
Land	450		450	450
Pilot boats	587,048	117,506	469,542	480,340
Pilot boats under capital lease	1,094,407	556,881	537,526	458,720
Furniture and equipment	201,880	112,597	89,283	73,555
	1,883,785	786,984	1,096,801	1,013,065

5. Capital lease agreements

The Authority leases pilot boats under long term financing leases. The payments required under the leases are as follows:

	1988	1987
	$	$
9 3/8% lease agreement, due April 1991, payable in blended annual payments of $54,785	164,355	219,140
8% lease agreement, due October 1989, payable in blended annual payments of $31,077	31,077	62,154
8% lease agreement, due November 1989, payable in blended annual payments of $31,077	31,077	62,154
Total lease payments	226,509	343,448
Less: amount representing interest	31,209	56,574
Principal amount of capital lease	195,300	286,874
Less: current portion	99,420	91,574
Principal amount of capital lease agreements net of current portion	95,880	195,300

ATLANTIC PILOTAGE AUTHORITY—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988—*Concluded*

The following is a schedule of lease payments under the capital leases expiring in 1989 and 1991.

Year ending December 31	$
1989	116,939
1990	54,785
1991	54,785
Total lease payments	226,509

Upon maturity of the leases, the Authority has the option to purchase each of the boats for $1.

6. Pension plan

Under provisions of the Pilotage Act, pilots who became employees of the Authority were entitled to count service prior to becoming an employee as pensionable under the Public Service Superannuation Act. For pilots who elected to purchase pension benefits with respect to past service, the Authority is required to match the employee contribution. Total past service pension expense was $10,662 in 1988 ($20,493 in 1987). The estimated unfunded past service pension contribution with respect to these employees was approximately $74,000 at December 31, 1988 ($100,000 at December 31, 1987) and will be funded over the remaining years of service of the pilots, or the terms of purchase, whichever is the lesser.

7. Related party transactions

The Canadian Coast Guard, through its Vessel Traffic Service Centres in Nova Scotia, New Brunswick and Newfoundland, provides a pilot dispatching service to the Authority without charge.

8. Commitments and contingency

(a) The Authority has entered into long term contracts for pilot boat services requiring the following minimum annual payments:

	$
1989	266,445
1990	36,500
	302,945

(b) In December 1987, a lawsuit was filed against the Authority relating to a contract for pilot boat services. In management's opinion, the outcome of this action cannot be determined at this time and no provision has been made in the financial statements.

SUMMARY PAGE

ATOMIC ENERGY OF CANADA LIMITED

MANDATE

To develop the utilization of atomic energy for peaceful purposes. The mandate of the corporation is prescribed by s. 10 of the *Atomic Energy Control Act* as that section read before its repeal and by its charter and articles of incorporation.

BACKGROUND

Founded in 1952, AECL developed Candu power generating technology. It operates research and development laboratories at Chalk River, Ontario and at Pinawa, Manitoba. Three provincial utilities received federal financing for nuclear facilities through AECL and make repayments to it which are passed on to Canada. The corporation was responsible for Candu reactors built in Argentina and in Korea and is providing services related to two Candu reactors under construction in Romania. Its design and engineering teams are important to the continued improvement and development of nuclear power stations and nuclear technology in general. The Radio-isotope and Medical Products components of AECL have been transferred to Canada Development Investment Corporation in readiness for sale to the private sector when authorized by legislation. Bill C-13 which would provide that authority when enacted, was voted to legislative committee on June 26, 1989, for review.

CORPORATION DATA

HEAD OFFICE	344 Slater Street Ottawa, Ontario K1A 0S4
STATUS	— Schedule III, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Jake Epp, P.C., M.P.
DEPARTMENT	Energy, Mines and Resources
YEAR AND MEANS OF INCORPORATION	February 14, 1952 under Part I of *Canada Corporations Act*; continued July 8, 1977 under the *Canada Business Corporations Act*; certificate amended July 15, 1982.
CHIEF EXECUTIVE OFFICER (ACTING)	Dr. Stanley R. Hatcher
CHAIRPERSON (ACTING)	Marnie Paikin (Mrs.)
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) Financial year ending March 31.

	1989	1988	1987	1986
At the end of the period				
Total Assets	994	1,036	1,018	1,107
Obligations to the private sector	21	22	23	246
Obligations to Canada	574	601	626	649
Equity of Canada	216	207	196	177
Cash from Canada in the period				
— budgetary	203	175	218	275
— non-budgetary	nil	nil	nil	nil

ATOMIC ENERGY OF CANADA LIMITED

MANAGEMENT RESPONSIBILITY

The financial statements and all other information presented in this Annual Report are the responsibility of the management and the Board of Directors of the corporation. The financial statements have been prepared in accordance with generally accepted accounting principles and include estimates based on the experience and judgement of management.

The corporation maintains books of account, financial and management control, and information systems, together with management practices designed to provide reasonable assurance that reliable and accurate financial information is available on a timely basis, that assets are safeguarded and controlled, that resources are managed economically and efficiently in the attainment of corporate objectives, that operations are carried out effectively and that transactions are in accordance with Part X of the Financial Administration Act and its regulations, as well as the articles, the bylaws and policies of the corporation. The corporation has met all reporting requirements established by the Financial Administration Act, including submission of a corporate plan, an operating budget, a capital budget and this Annual Report.

The corporation's internal auditor has the responsibility for assessing the management systems and practices of the corporation. The Auditor General of Canada conducts an independent examination of the financial statements of the corporation and reports on his examination to the Minister of Energy, Mines and Resources.

The Board of Directors' Audit Committee, composed of directors who are not employees of the corporation, reviews and advises the Board on the financial statements, the Auditor General's reports thereto and the plans and reports related to special examinations, and oversees the activities of internal audit. The Audit Committee meets with management, the internal auditor and the Auditor General on a regular basis.

S.R. Hatcher
Acting President and Chief Executive Officer
D.G. Cuthbertson
Vice-President, Finance and Chief Financial Officer

AUDITOR'S REPORT

TO THE MINISTER OF ENERGY, MINES AND RESOURCES

I have examined the balance sheet of Atomic Energy of Canada Limited as at March 31, 1989 and the statements of income, contributed capital, retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the corporation as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the articles and the bylaws of the corporation.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
May 5, 1989

BALANCE SHEET AS AT MARCH 31, 1989
(in thousands of dollars)

ASSETS	1989	1988
Current		
Cash and short-term deposits	86,588	59,950
Accounts receivable	147,776	168,048
Receivable from CDIC (Note 3)	114,607	
CANDU 3 pre-project costs (Note 2)		16,410
Inventories (Note 4)	3,727	58,412
	352,698	302,820
Heavy water inventory (Note 4)	8,586	9,488
Long-term receivables (Note 5)	541,343	567,541
Investment and deferred costs (Note 6)	81,704	106,104
Property, plant and equipment (Note 7)	9,576	50,311
	993,907	1,036,264

LIABILITIES	1989	1988
Current		
Accounts payable and accrued liabilities	112,592	136,576
Current portion of long-term debt	31,346	28,214
	143,938	164,790
Deferred revenue	31,408	28,465
Accrued employee termination benefits	39,865	41,289
Long-term debt (Note 8)	562,986	594,332
	778,197	828,876
SHAREHOLDER'S EQUITY		
Capital stock		
Authorized—75,000 common shares		
Issued—54,000 common shares	15,000	15,000
Contributed capital	73,907	72,418
Retained earnings	126,803	119,970
	215,710	207,388
	993,907	1,036,264

Approved by the Board:

M. PAIKIN
Director

S. R. HATCHER
Director

ATOMIC ENERGY OF CANADA LIMITED—*Continued*

STATEMENT OF INCOME
FOR THE YEAR ENDED MARCH 31, 1989
(in thousands of dollars)

	1989	1988
Nuclear power operations		
Revenue		
Nuclear supply and services	88,922	95,049
Interest on long-term receivables	59,664	64,338
Interest on short-term deposits	9,137	5,662
	157,723	165,049
Costs and expenses		
Costs of sales and services	41,341	61,790
Product development (Note 2)	33,023	10,183
Less: parliamentary appropriations (Note 2)	(28,000)	
Marketing and administration	22,287	20,464
Interest on long-term debt	53,952	55,983
	122,603	148,420
Operating profit	35,120	16,629
Research and development operations		
Expenses	248,216	251,455
Less: commercial revenue	32,258	27,604
cost recovery	49,808	48,299
parliamentary appropriations (Note 2)	146,879	153,700
Net expense	19,271	21,852
Decommissioning activities		
Expenses	18,632	22,953
Less: parliamentary appropriations (Note 2)	10,309	20,342
recovery from asset sales	1,598	2,611
Net expense	6,725	
Income (loss) from continuing operations	9,124	(5,223)
Income from subsidiaries divested (Note 3)	14,109	15,583
Net income	23,233	10,360

STATEMENT OF CONTRIBUTED CAPITAL
FOR THE YEAR ENDED MARCH 31, 1989
(in thousands of dollars)

	1989	1988
Balance at beginning of the year	72,418	71,051
Parliamentary appropriations for loan principal repayment	1,489	1,367
Balance at end of the year	73,907	72,418

STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED MARCH 31, 1989
(in thousands of dollars)

	1989	1988
Balance at beginning of the year	119,970	109,610
Net income	23,233	10,360
Dividend	(16,400)	
Balance at end of the year	126,803	119,970

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1989
(in thousands of dollars)

	1989	1988
Operating activities		
Net income	23,233	10,360
Depreciation and amortization	6,211	6,427
	29,444	16,787
Decrease (increase) in operating working capital	17,912	(9,892)
Cash from operations	47,356	6,895
Investing activities		
Divestment of subsidiaries (Note 3)	114,607	
Receivable from CDIC (Note 3)	(114,607)	
Acquisition of commercial property, plant and equipment, net of disposal	(3,569)	(3,009)
Increase in deferred costs		(606)
Cash invested	(3,569)	(3,615)
Financing activities		
Repayment of long-term debt	(28,214)	(26,352)
Proceeds from long-term notes receivable	25,976	23,954
Dividend	(16,400)	
Parliamentary appropriations for loan principal repayment	1,489	1,367
Cash used in financing	(17,149)	(1,031)
Increase in cash and short-term deposits	26,638	2,249
Cash and short-term deposits at beginning of the year	59,950	57,701
Cash and short-term deposits at end of the year	86,588	59,950

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis. The most significant accounting policies are summarized below:

Foreign currency translation

Transactions denominated in a foreign currency are translated into Canadian dollars at the exchange rate in effect at the date of the transaction, except those covered by forward exchange contracts, where the rate established by the terms of the contract is used. Monetary assets and liabilities outstanding at the balance sheet date are adjusted to reflect the exchange rate in effect at that date. Exchange gains and losses arising from the translation of foreign currencies are included in income.

Inventories

Radiation equipment and materials are valued at the lower of average cost and net realizable value. Maintenance and general supplies are valued at cost. Heavy water is valued at the lower of average cost, less related parliamentary appropriations, and net realizable value.

Investment and deferred costs

Investment and deferred costs are recorded at cost and charged to the revenue derived therefrom over the expected period of revenue generation.

Property, plant and equipment

Property, plant and equipment of a research and development nature are recorded at cost and expensed in the year of acquisition.

ATOMIC ENERGY OF CANADA LIMITED—*Continued*

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—*Concluded*

Other property, plant and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful life of the asset as follows:

Machinery and equipment	3 to 20 years
Buildings	20 to 50 years

Costs of decommissioning nuclear facilities are expensed when incurred.

Long-term contracts

Revenue and costs on long-term contracts are accounted for by the percentage of completion method, applied on a conservative basis to recognize the absence of certainty on these contracts. Full provision is made for all estimated losses to completion of contracts in progress.

Parliamentary appropriations

The Government of Canada, through parliamentary appropriations, funds certain operations of the corporation as outlined in Note 2. The parliamentary appropriations are offset against the applicable expenditures except for the portion used to discharge certain loan principal which is recognized as an increase in contributed capital.

Pension plan

Employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. The corporation's contributions to the Plan are limited to an amount equal to the employees' contributions on account of current service. These contributions represent the total pension obligations of the corporation and are charged to income on a current basis.

Employee termination benefits

Employees are entitled to specific termination benefits as provided for under collective agreements and conditions of employment. The liability for these benefits is charged to income as benefits accrue to the employees.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 1989

1. Accounting policies

The summary of significant accounting policies is an integral part of these financial statements.

2. Parliamentary appropriations

Parliamentary appropriations were used during the year for the following purposes:

	1989	1988
	(in thousands of dollars)	
Research and development operations	146,879	153,700
CANDU 3 pre-project costs	44,400	
Decommissioning activities	10,309	20,342
Heavy water plant loan principal	1,489	1,367
	203,077	175,409

Parliamentary appropriations of $44.4 million received this year were in respect of $16.4 million of expenditures in 1988 on pre-project detail engineering of the CANDU 3 power reactor and of a further $28.0 million spent in 1989 on this program. Pending receipt of government funding, the $16.4 million was reflected as a current asset in the balance sheet and was not reported as part of total product development costs of that year. The product development costs and parliamentary appropriations for 1989 include the $28.0 million for this year, but the 1988 figures have not been restated to include the $16.4 million.

3. Subsidiaries divested

In March 1988, the Government of Canada announced its intention to privatize the corporation's radiation equipment and isotope businesses conducted by the Radiochemical Company and the Medical Products Division, both operating divisions of the corporation. During the year, these divisions were incorporated under the names Nordion International Inc. (Nordion) and Theratronics International Limited (Theratronics) respectively. On September 30, 1988 the corporation sold its shares in Nordion and Theratronics to Canada Development Investment Corporation (CDIC) for eventual privatization. Under the terms of the agreement with CDIC, the corporation will receive full proceeds realized upon the privatization of Nordion and Theratronics, less CDIC's expenses associated therewith. While the corporation anticipates a gain on sale, the amount cannot reasonably be determined at this time. A receivable from CDIC of $114.6 million, equal to the net book value on September 30, 1988 of the businesses sold, has been recorded in the accounts. A significant portion of the changes in balance sheet figures for accounts receivable, inventory, deferred costs, fixed assets, accounts payable and employee termination benefits relates to the net book values of the businesses sold.

Income from Nordion and Theratronics for the six months ended September 30, 1988 and for the twelve months ended March 31, 1988 has been reflected in the income statement as income from subsidiaries divested and all revenue and expense figures for the 1988 year have accordingly been restated as necessary. Revenues of Nordion and Theratronics were $70 million for the six-month period in the 1989 year and $125 million for the full 1988 year.

4. Inventories

	1989	1988
	(in thousands of dollars)	
Current		
Maintenance and general supplies	3,727	4,165
Radiation equipment and materials		54,247
	3,727	58,412
Heavy water	548,964	555,953
Less: parliamentary appropriations	540,378	546,465
	8,586	9,488

Parliamentary appropriations for heavy water are repayable to the government, together with interest thereon, to the extent of future revenue from sales of related heavy water. Accrued liabilities as at March 31, 1989 include $4.9 million in respect of net proceeds from sales during the year (1988—$6.7 million). During the year, the corporation was authorized to retain the 1988 net proceeds of $6.7 million to compensate for net expenses incurred in 1989 decommissioning activities.

5. Long-term receivables

	1989	1988
	(in thousands of dollars)	
Notes receivable from provincial utilities in respect of the financing of nuclear facilities (refer to Note 8 for related debt)	550,289	576,265
Contract receivables maturing through 1995	35,719	32,941
Mortgages receivable and other	3,462	4,103
	589,470	613,309
Current portion	48,127	45,768
	541,343	567,541

ATOMIC ENERGY OF CANADA LIMITED—*Continued*

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1989—*Continued*

6. Investment and deferred costs

	1989	1988
	(in thousands of dollars)	
Investment in Pickering 1 and 2		
The corporation, Ontario Hydro and the Province of Ontario are parties to an agreement for the construction and operation of Units 1 and 2 of the Pickering "A" nuclear generating station, with ownership of these Units being vested in Ontario Hydro. Under the agreement, the corporation is entitled to receive payments until the year 2003 based on the net operational advantage of the power generated by Pickering Units 1 and 2 as compared with the coal-fired Lambton Units 1 and 2	81,704	84,012
Deferred costs		
Costs incurred in modifying non-corporation owned facilities for revenue-producing purposes and other deferred costs		22,092
	81,704	106,104

Pickering Units 1 and 2 returned to service in October 1987 and November 1988 after a prolonged shutdown for pressure tube replacements. During this period there was no amortization of the investment. The timing of the resumption of payments under the agreement is uncertain. However, amortization of the investment recommenced with the return to service of the second unit. The charge against 1989 earnings amounted to $2.3 million (1988—nil).

7. Property, plant and equipment

	1989			1988
	Cost	Funding and accumulated depreciation	Net	Net
	(in thousands of dollars)			
Nuclear power operations				
Land and improvements	1,169	565	604	1,321
Buildings	9,830	9,733	97	28,172
Machinery and equipment	18,933	14,244	4,689	18,198
	29,932	24,542	5,390	47,691
Research and development operations				
Land and improvements	11,537	11,537		
Buildings	80,346	77,765	2,581	2,620
Reactors and equipment	231,636	230,031	1,605	
Construction in progress	52,582	52,582		
	376,101	371,915	4,186	2,620
	406,033	396,457	9,576	50,311

Depreciation of property, plant and equipment for the year ended March 31, 1989 amounted to $3.1 million (1988—$5.0 million).

Research and development property, plant and equipment expensed during the year amounted to $14.1 million (1988—$22.0 million).

8. Long-term debt

	1989	1988
	(in thousands of dollars)	
Loans from Government of Canada		
To finance provincial utility nuclear facilities maturing through 2008 at fixed interest rates varying from 6.687% to 9.706% (refer to Note 5 for related receivables)	549,774	575,678
To finance leased heavy water and other assets, maturing through 2003 at fixed interest rates varying from 4.125% to 10%	24,002	24,854
Loans from third parties		
To finance the purchase of the Glace Bay heavy water plant, maturing through 1998 at an imputed interest rate of 8.875%	20,556	22,014
	594,332	622,546
Current portion	31,346	28,214
	562,986	594,332

Loan repayments required over succeeding years are as follows (millions of dollars): 1990—$31.3; 1991—$33.9; 1992—$36.6; 1993—$33.1; 1994—$16.0; and subsequent to 1994—$443.4.

9. Decommissioning activities

Decommissioning activities consist of placing and maintaining prototype reactors in a safe storage mode as the initial stage of decommissioning, as well as the activities associated with closure and protection of heavy water plants.

Prototype reactors

The decommissioning of nuclear research and prototype facilities is an integral part of the nuclear program. Currently, the Gentilly-1, Douglas Point and Nuclear Power Demonstration (NPD) prototype reactors are in a safe storage mode. The balance of the NPD program is proceeding on target with an estimated cost to complete of $4 million. The WR-1 reactor was shutdown in 1985 and a decommissioning program for this reactor is currently being developed.

Future net costs related to decommissioning nuclear facilities beyond the safe-storage mode cannot be quantified at this time due to the uncertainty as to the exact nature, timing and ultimate disposal alternatives. In accordance with the corporation's accounting policy, any such costs will be expensed when incurred.

All reactors in the decommissioning stage have been fully written off. The original gross cost of these reactors is $216 million, including $31 million for capitalized heavy water.

Heavy water plants

The corporation has closed down its heavy water plants located in Glace Bay and Port Hawkesbury in Cape Breton, Nova Scotia and in LaPrade, Quebec. These assets, which have been fully written off, had an original gross cost of $803 million.

ATOMIC ENERGY OF CANADA LIMITED—*Concluded*

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1989—*Concluded*

10. Related party transactions

In addition to the transactions disclosed elsewhere in these financial statements, the corporation had the following transactions with the Government of Canada:

	1989	1988
	(in thousands of dollars)	
Repayment of loans and interest	85,005	84,538
Payments to the Public Service Superannuation Plan	11,586	12,555

In the normal course of business, the corporation also enters into various transactions with the Government of Canada, its agencies and other Crown corporations.

11. Comparative figures

Certain reclassifications have been made to the 1988 comparative figures to conform with the current year's presentation. The most significant of these reclassifications is referred to in Note 3.

12. Supplementary information

Incorporation

Pursuant to the authority and powers of the Minister of Energy, Mines and Resources under the Atomic Energy Control Act, the corporation was incorporated in 1952 under the provisions of the Canada Corporations Act (and continued in 1977 under the provisions of the Canada Business Corporations Act) to develop the utilization of atomic energy for peaceful purposes.

The corporation is a Schedule III Part I Crown corporation under the Financial Administration Act. The corporation is exempt from income taxes.

Insurance

To the extent deemed appropriate, the corporation carries conventional insurance for its facilities and heavy water inventories. Decommissioned prototype reactors are self-insured.

Sales agents' remuneration

Guidelines concerning the commercial practices of Crown corporations require disclosure of sales agents and the total remuneration paid to them during the year.

Remuneration and expenses paid to the following sales agents and representatives in 1989 aggregated $2.5 million (1988—$2.4 million):

B.C. Park, U.S.A.; Bio Nuclear Diagnostica Industria E. Comercio Ltda., Brazil; Equipo Para Hospitales, S.A., Mexico; Gammaster BV, Netherlands; General Machinery Company Ltda., Chile; Gemed Sistemas Medics C.A., Venezuela; G.E. (U.S.A.) Electromediacia, Spain; International de Energia Nuclear, Mexico; International General Electric Co. (India) Ltd., India; Jacobson Van Den Berg (Hong Kong) Ltd., Hong Kong; Korea General Trading, Korea; Kostas Karayannis, S.A., Greece; Marubeni Corporation, Japan; Medtel, Australia; M.L. Sethi, India; Rashid Trading Corporation Ltd., Bangladesh; Sabbagh, Jordan; Spring Port Taiwan Limited, Taiwan; PII-PED International Inc., U.S.A.; P.T. Sanga Kencana International, Indonesia; Radiotherapy & Medical Systems Pty Ltd., Australia; Societa Lombarda Di Televisione s.r.l., Italy; Sumta Inc., Turkey; Tamathe s.r.l., Argentina; Technologia Em Radiocoa, Brazil; Zelin Limited.

SUMMARY PAGE
BANK OF CANADA

MANDATE

The Bank of Canada is responsible for the formulation and implementation of monetary policy in Canada and acts as the government's fiscal agent. The Bank has the sole right to issue currency intended for circulation in Canada and it fixes the percentage of the deposit liabilities of chartered banks which they must maintain as secondary reserves. It conducts open-market operations, buying or selling securities as, in its judgement, the progress of Canada's economy requires. As fiscal agent, it handles the issue of securities of Canada and payment of related interest and principal; it also cashes and negotiates cheques drawn on the Receiver General. It administers the Exchange Fund Account and acts as agent for the government's operations in the foreign exchange market.

BACKGROUND

The Bank was created by its Act in 1934 as Canada's central bank.

CORPORATION DATA

HEAD OFFICE	234 Wellington Street Ottawa, Ontario K1A 0G9
STATUS	Acts as the fiscal agent of the Government of Canada; is exempted from the provisions of Divisions I to IV of Part X of the *Financial Administration Act*.
APPROPRIATE MINISTER	The Honourable Michael Wilson, P.C., M.P.
DEPARTMENT	Finance
YEAR AND MEANS OF INCORPORATION	1934, by the *Bank of Canada Act* (R.S.C. 1985, c. B-2).
CHIEF EXECUTIVE OFFICER	John Crow
AUDITOR	Arthur Andersen & Co. and Ernst & Whinney.

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1988	1987	1986	1985
Expenses, before depreciation	159	151	143	135

Note: This Financial Summary is cursory compared with that for any other corporation in this Report. This is appropriate because the nature of the operations of a central bank makes its financial statements unique in their import. For example: the Bank's assets are mostly securities of Canada and its revenues are mostly the interest paid to it by Canada on those securities. Therefore, the substantial net income (1987, $1,844 million; 1988, $1,938 million) which the Bank pays to Canada is essentially the completion of a circular flow of cash, diminished by the amount of the Bank's operating expenses.

BANK OF CANADA

AUDITORS' REPORT

We have examined the statement of assets and liabilities of the Bank of Canada as at December 31, 1988 and the statement of revenue and expense for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Bank as at December 31, 1988 and the results of its operations for the year then ended in accordance with the accompanying summary of significant accounting policies, applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.
Ernst & Whinney

Ottawa, Canada
January 26, 1989

STATEMENT OF ASSETS AND LIABILITIES
AS AT DECEMBER 31, 1988
(with comparative figures for 1987)
(in thousands of dollars)

ASSETS	1988	1987
Deposits payable in foreign currencies		
U.S.A. dollars	369,087	305,819
Other currencies	262,989	4,877
	632,076	310,696
Advances to members of the Canadian Payments Association (Note 2)	485,325	798,251
Investments—At amortized values (Note 3)		
Treasury bills of Canada	9,685,022	9,676,651
Other securities issued or guaranteed by Canada maturing within three years	3,051,422	2,603,372
Other securities issued or guaranteed by Canada not maturing within three years	7,609,779	7,915,185
Other investments	2,357,937	1,187,027
	22,704,160	21,382,235
Bank premises (Note 4)	139,798	141,290
Accrued interest on investments	320,801	320,732
Other assets	36,981	69,995
	24,319,141	23,023,199

LIABILITIES	1988	1987
Capital paid up (Note 5)	5,000	5,000
Rest fund (Note 6)	25,000	25,000
Notes in circulation	21,032,433	19,447,407
Deposits		
Government of Canada	14,199	23,330
Chartered banks	2,177,109	2,648,949
Other members of the Canadian Payments Association	259,651	287,129
Other deposits	307,487	428,656
	2,758,446	3,388,064
Liabilities payable in foreign currencies		
Government of Canada	472,924	134,409
Other	11	12
	472,935	134,421
Bank of Canada cheques outstanding	18,838	16,448
Other liabilities	6,489	6,859
	24,319,141	23,023,199

See accompanying notes to the financial statements.

J.W. CROW
Governor

J. COSIER
Chief Accountant

BANK OF CANADA—*Continued*

STATEMENT OF REVENUE AND EXPENSE
YEAR ENDED DECEMBER 31, 1988
(with comparative figures for 1987)
(in thousands of dollars)

	1988	1987
Revenue		
Revenue from investments and other sources, net of interest paid on deposits of $21,285 ($11,378 in 1987)	2,109,705	2,007,604
Expense		
Salaries[1]	67,561	64,668
Contributions to pension and insurance funds[2]	8,720	7,640
Other staff expenses[3]	2,207	1,741
Directors' fees	107	114
Auditors' fees and expenses	516	495
Taxes—Municipal and business	8,767	8,100
Bank note costs	35,074	35,713
Data processing and computer costs	5,832	6,005
Premises maintenance—Net of rental income[4]	19,605	16,810
Printing of publications	547	582
Other printing and stationery	2,161	2,031
Postage and express	1,604	1,572
Telecommunications	1,725	1,545
Travel and staff transfers	2,284	2,063
Other expenses	2,096	2,126
	158,806	151,205
Depreciation on buildings and equipment	13,237	12,502
	172,043	163,707
Net revenue paid to Receiver General for Canada	1,937,662	1,843,897

See accompanying notes to the financial statements.

[1] Salaries include overtime and are for Bank staff other than those engaged in premises maintenance. The number of employee years worked by such staff (including temporary, part-time and overtime work) was 2,234 in 1988 compared with 2,246 in 1987.

[2] Contributions to pension and insurance funds for Bank staff other than those engaged in premises maintenance.

[3] Other staff expenses include retirement allowances and educational training costs.

[4] Premises maintenance comprises building and equipment maintenance expenses including related staff costs.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1988

1. Significant accounting policies

The financial statements of the Bank conform to the disclosure and accounting requirements of the Bank of Canada Act and the Bank's by-laws. The significant accounting policies of the Bank are:

(a) Revenues and expenses

Revenues and expenses are accounted for on the accrual basis except for interest on advances to a bank ordered to be wound up where interest is recorded as received.

(b) Investments

Investments, consisting mainly of Government of Canada treasury bills and bonds, are recorded at cost adjusted for amortization of purchase discounts and premiums. The amortization as well as gains and losses on disposition are included in revenue.

(c) Translation of foreign currencies

Assets and liabilities in foreign currencies are translated to Canadian dollars at the rates of exchange prevailing at the year-end. Gains and losses from translation of, and transactions in, foreign currencies are included in revenue.

(d) Bank premises

Bank premises, consisting of land, buildings and equipment, are recorded at cost less accumulated depreciation. Depreciation is calculated on the declining balance method using the following annual rates:

Buildings	5%
Computer equipment	35%
Other equipment	20%

(e) Pension plan

The Bank's contributions to the Pension Fund are recorded as expenses at the time they are made. Actuarial surpluses or deficiencies, if any, are amortized over periods not exceeding those provided for by the Pension Benefits Standards Act, 1985, and the regular contributions are adjusted accordingly.

(f) Insurance

The Bank does not insure against direct risks of loss to the Bank, except for potential liabilities to third parties and where there are legal or contractual obligations to carry insurance. Any costs arising from these risks are recorded in the accounts at the time they can be reasonably estimated.

2. Advances to members of the Canadian Payments Association

Advances include a total of $143,024,668 ($362,151,392 in 1987) provided to the Canadian Commercial Bank and the Northland Bank for which winding-up orders have been issued by the courts. On the basis of the available information, it is the opinion of the Bank of Canada that this amount will be fully repaid from the proceeds of the liquidations.

BANK OF CANADA—*Concluded*

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1988—*Concluded*

3. Investments

Investments may include securities of the Government of Canada held under Purchase and Resale Agreements (PRA). As at December 31, 1988 there were no securities held under PRA ($164,942,690 in 1987).

4. Bank premises

5. Capital

The authorized capital of the Bank is $5,000,000 divided into 100,000 shares of the par value of $50 each. The shares are fully paid and in accordance with the Bank of Canada Act have been issued to the Minister of Finance, who is holding them on behalf of Canada.

	1988			1987
	Cost	Accu-mulated depre-ciation	Net	Net
	(in thousands of dollars)			
Land and buildings	171,415	64,020	107,395	110,705
Computer equipment ...	32,334	25,457	6,877	7,576
Other equipment	44,357	27,999	16,358	14,945
	248,106	117,476	130,630	133,226
Projects in progress	9,168		9,168	8,064
	257,274	117,476	139,798	141,290

6. Rest Fund

The rest fund was established by the Bank of Canada Act and represents the general reserve of the Bank. In accordance with the Act, the rest fund was accumulated out of net revenue until it reached the stipulated maximum amount of $25,000,000 in 1955. Subsequently all net revenues have been paid to the Receiver General for Canada.

SUMMARY PAGE
CANADA COUNCIL

MANDATE

To foster and promote the study and enjoyment of and production of works in the arts and coordinate UNESCO activities in Canada and Canadian participation in various UNESCO activities abroad, apart from political questions and assistance to developing countries.

BACKGROUND

The Council receives a parliamentary grant each year for its operations. As well, it has income from the $50 million Endowment Fund which was created by its Act and from monies and properties donated to the Council and administered as Special Funds. It is a charitable organization for the purposes of the *Income Tax Act*.

CORPORATION DATA

HEAD OFFICE	99 Metcalfe Street Ottawa, Ontario K1P 5V8
STATUS	— exempt from Divisions I to IV of Part X of the *Financial Administration Act*; not listed in the schedules to the Act — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Marcel Masse, P.C., M.P.
DEPARTMENT	Communications
YEAR AND MEANS OF INCORPORATION	1957, by the *Canada Council Act* (R.S.C. 1985, c. C-2).
CHIEF EXECUTIVE OFFICER	Joyce Zemans
CHAIRMAN	Alan Gotlieb
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) Financial year ending March 31.

	1989	**1988**	**1987**	**1986**
At the end of the period				
Assets — Endowment Account	130.7	128.7	121.2	107.4
— Special Funds	40.5	40.1	38.8	35.9
Cash from Canada in the period				
— budgetary	93.3	96.9	85.5	74.2
— non-budgetary	nil	nil	nil	nil
Other revenues	10.5	9.4	9.6	11.6
Outlays on grants, services and art	93.5	82.7	84.3	69.4

CANADA COUNCIL

AUDITOR'S REPORT

TO THE CANADA COUNCIL AND THE
MINISTER OF COMMUNICATIONS

I have examined the balance sheets of the Endowment Account and Special Funds of the Canada Council as at March 31, 1989 and the statements of revenue and expenditure and equity of the Endowment Account and Special Funds and the statement of changes in financial position of the Endowment Account for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Council as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Raymond Dubois, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 7, 1989

ENDOWMENT ACCOUNT

BALANCE SHEET AS AT MARCH 31, 1989
(in thousands of dollars)

ASSETS	1989	1988
Cash and short-term deposits	19,357	15,850
Accrued interest	1,829	1,593
Accounts receivable	1,625	169
Prepaid expenses	299	165
Investments (Note 4)	93,173	97,368
Equipment and leasehold improvements (Note 5)	1,418	1,438
Works of art	12,993	12,141
	130,694	128,724

LIABILITIES	1989	1988
Grants payable	23,102	17,047
Accounts payable and accrued liabilities	1,225	1,562
Deferred credits (Note 6)	569	548
Due to Special Funds	2,518	2,583
Due to Special Trusts (Note 7)	2,504	2,349
Provision for employee termination benefits	901	965
	30,819	25,054
EQUITY		
Fund capital		
Principal	50,000	50,000
Accumulated net gains on disposal of investments	32,230	30,047
	82,230	80,047
Contributed surplus—Works of art	12,993	12,141
Surplus		
Appropriated	2,700	2,700
Unappropriated	1,952	8,782
	4,652	11,482
	99,875	103,670
	130,694	128,724

Approved by Management:

PETER BROWN
Treasurer

Approved by the Council:

JACQUES LEFEBVRE
Vice-Chairman

CANADA COUNCIL—*Continued*

STATEMENT OF REVENUE AND EXPENDITURE OF THE ENDOWMENT ACCOUNT FOR THE YEAR ENDED MARCH 31, 1989
(in thousands of dollars)

Revenue		
Parliamentary appropriations	93,251	96,895
Interest and dividends	8,836	7,996
Art Bank rental fees	933	831
Cancelled grants and refunds of grants approved in previous years	429	426
Other revenue	312	190
	103,761	106,338
Expenditure		
Arts		
Grants and services (Note 8)	92,485	81,653
Administration (Schedule)	8,810	8,578
Works of art	852	892
	102,147	91,123
Canadian Commission for UNESCO		
Administration (Schedule)	1,143	980
Grants and services	148	101
	1,291	1,081
General administration (Schedule)	7,153	6,988
	110,591	99,192
Excess of revenue over expenditure (expenditure over revenue) for the year	(6,830)	7,146

STATEMENT OF EQUITY OF THE ENDOWMENT ACCOUNT FOR THE YEAR ENDED MARCH 31, 1989
(in thousands of dollars)

	Fund capital				Contributed surplus		Surplus			
		Accumulated net gains on disposal of investments	Total		Total				Total	
	Principal		1989	1988	1989	1988	Appropriated	Unappropriated	1989	1988
Balance at beginning of the year	50,000	30,047	80,047	76,121	12,141	11,249	2,700	8,782	11,482	4,336
Net gains on disposal of investments		2,183	2,183	3,926						
Works of art purchased during the year					852	892				
Excess of revenue over expenditure (expenditure over revenue) for the year								(6,830)	(6,830)	7,146
Balance at end of the year	50,000	32,230	82,230	80,047	12,993	12,141	2,700	1,952	4,652	11,482

CANADA COUNCIL—*Continued*

STATEMENT OF CHANGES IN FINANCIAL POSITION OF THE ENDOWMENT ACCOUNT FOR THE YEAR ENDED MARCH 31, 1989
(in thousands of dollars)

	1989	1988
Operating activities		
Excess of revenue over expenditure (expenditure over revenue) for the year	(6,830)	7,146
Items not affecting cash		
Depreciation and amortization	431	378
Loss on disposal of equipment	8	9
Employee termination benefits	(64)	166
	(6,455)	7,699
Change in non-cash operating assets and liabilities	4,003	(862)
Funds provided by (applied to) operating activities	(2,452)	6,837
Investing activities		
Acquisition of equipment and leasehold improvements	(430)	(360)
Proceeds on disposal of equipment	11	5
Decrease (increase) in investments	4,195	(583)
Funds provided by (applied to) investing activities	3,776	(938)
Financing activities		
Net gains on disposal of investments transferred to Fund capital	2,183	3,926
Increase in funds	3,507	9,825
Cash and short-term deposits at beginning of the year	15,850	6,025
Cash and short-term deposits at end of the year	19,357	15,850

SPECIAL FUNDS

BALANCE SHEET AS AT MARCH 31, 1989
(in thousands of dollars)

ASSETS	1989	1988
Cash and short-term deposits	6,168	4,998
Accrued interest	672	623
Investments (Note 4)	30,172	31,617
Due from Endowment Account	2,518	2,583
Musical instruments	930	266
	40,460	40,087

LIABILITIES	1989	1988
Grants payable	2,449	2,659
EQUITY		
Fund capital		
Principal	31,884	30,975
Accumulated net gains on disposal of investments	5,927	6,469
	37,811	37,444
Surplus (deficit)	200	(16)
	38,011	37,428
	40,460	40,087

Approved by Management:

PETER BROWN
Treasurer

Approved by the Council:

JACQUES LEFEBVRE
Vice-Chairman

CANADA COUNCIL—*Continued*

STATEMENT OF REVENUE, EXPENDITURE AND EQUITY OF THE SPECIAL FUNDS (NOTE 2)
FOR THE YEAR ENDED MARCH 31, 1989
(in thousands of dollars)

	Izaak Walton Killam Memorial	Killam Special Scholarship	Jean A. Chalmers	Molson Prize	Lynch-Staunton	Frances and J.P. Barwick	John B.C. Watkins	Vida Peene	Coburn Fellowship Trust	Total	
										1989	1988
Revenue and expenditure											
Revenue											
Interest and dividends	1,494	1,257	45	119	123	14	19	51	2	3,124	2,814
Other revenue	11	33								44	
	1,505	1,290	45	119	123	14	19	51	2	3,168	2,814
Expenditure											
Grants	1,055	922	41	100	114			51		2,283	2,874
Administration	215	181	5	9		19				429	365
	1,270	1,103	46	109	114	19		51		2,712	3,239
Excess of revenue over expenditure (expenditure over revenue) for the year	235	187	(1)	10	9	(5)	19		2	456	(425)
Equity											
Fund capital											
Principal											
Balance at beginning of the year	13,555	14,229	500	1,000	699	372		600	20	30,975	30,484
Donations received						669				669	279
Net income capitalized	129	111								240	212
Balance at end of the year	13,684	14,340	500	1,000	699	1,041		600	20	31,884	30,975
Accumulated net gains on disposal of investments											
Balance at beginning of the year	3,207	2,519		341	402					6,469	5,338
Net gains (losses) on disposal of investments	(326)	(275)		29	30					(542)	1,131
Balance at end of the year	2,881	2,244		370	432					5,927	6,469
	16,565	16,584	500	1,370	1,131	1,041		600	20	37,811	37,444
Surplus (deficit)											
Balance at beginning of the year	(299)	(122)	23	(3)	207	24	151		3	(16)	621
Excess of revenue over expenditure (expenditure over revenue) for the year	235	187	(1)	10	9	(5)	19		2	456	(425)
Net income capitalized	(129)	(111)								(240)	(212)
Balance at end of the year	(193)	(46)	22	7	216	19	170		5	200	(16)
Equity at end of the year	16,372	16,538	522	1,377	1,347	1,060	170	600	25	38,011	37,428

CANADA COUNCIL—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989

1. Authority and operations

The Canada Council was established by the Canada Council Act in 1957 which authorized the creation of an Endowment Fund of $50 million pursuant to Section 13 of the Act. Except for the annual parliamentary appropriation, monies or properties donated to the Council pursuant to Section 18 of the Act are generally accounted for as Special Funds. The Council has been assigned the functions and duties for the Canadian Commission for UNESCO pursuant to Paragraph 8 (2) of the Act. The Council is not an agent of Her Majesty. Its objectives are to foster and promote the study, enjoyment and production of works, in the arts.

2. Special funds

(a) Izaak Walton Killam Memorial

A bequest of $12,339,615 in cash and securities was received from the estate of the late Mrs. Dorothy J. Killam for the establishment of the Izaak Walton Killam Memorial Fund for Advanced Studies "to provide scholarships for advanced study or research at universities, hospitals, research or scientific institutes, or other equivalent or similar institutions both in Canada and in other countries in any field of study or research other than the "arts" as presently defined in the Canada Council Act and not limited to the "humanities and social sciences" referred to in such Act".

The bequest contains the following provisions: "the Fund shall not form part of the Endowment Account or otherwise be merged with any assets of the Council"; and "in the event that the Canada Council should ever be liquidated or its existence terminated or its powers and authority changed so that it is no longer able to administer any Killam trust, the assets forming any such Killam trust shall thereupon be paid over to certain universities which have also benefited under the will."

The cash and securities received and the proceeds have been invested in a separate portfolio.

(b) Killam Special Scholarship

This fund was established by way of securities received from the late Mrs. Dorothy J. Killam. Dividends and proceeds from the redemption of those securities amounted to $13,653,344.

The net income from this fund is available to provide fellowship grants to Canadians for advanced study or research in the fields of medicine, science and engineering at universities, hospitals, research or scientific institutions or other equivalent or similar institutions in Canada.

(c) Jean A. Chalmers

An endowment of $500,000 in cash was received from Mrs. Floyd S. Chalmers to establish a special Jean A. Chalmers Fund for the crafts. In consultation with the Canadian Crafts Council, the income of the fund is used to provide a small number of special project grants for the development or advancement of the crafts in Canada.

(d) Molson Prize

Gifts of $1,000,000 were received from the Molson Foundation for the establishment of the Molson Prize Fund. The income of the fund is used for awarding cash prizes to Canadians "for outstanding achievement in the fields of the Arts, the Humanities or the Social Sciences that enriches the cultural or intellectual heritage of Canada or contributes to national unity." There is no restriction placed on the recipient as to the use of the prize.

(e) Lynch-Staunton

This fund was established by a bequest in cash of $699,066 received from the estate of the late V.M. Lynch-Staunton, the income from which is available for the regular programs of the Council.

(f) Frances Elizabeth Barwick and J.P. Barwick

A bequest of $40,000 in cash was received from the estate of the late Mrs. Frances Elizabeth Barwick with the condition that "such bequest be applied for the benefit and encouragement of the arts." A bequest of $53,000 was also received from the estate of J.P. Barwick "for the benefit of the musical division of the arts and for the encouragement of the musical arts." The total fund is to be used for the benefit of the musical arts. These funds, in addition to the donations received during the year, are being used for the establishment of a musical instrument bank.

(g) John B.C. Watkins

This fund was established by a bequest consisting of the net income from the residue of the estate of the late John B.C. Watkins to provide scholarships for postgraduate studies in specified countries.

(h) Vida Peene

This fund was established by a bequest in cash of $599,761 received from the late Vida Peene to provide payments to specified organizations.

(i) Funds will eventually be received from the following bequests:

(i) Edith Davis Webb

This fund, estimated at $400,000, is intended "for the purpose of making grants or establishing scholarships for musical study in such manner as the Council shall determine."

(ii) Coburn Fellowship Trust

This fund, the amount of which cannot be determined at this time, is to provide for exchanges of scholars between Israel and Canada. It consists of an amount of $100 from Kathleen Coburn to establish this fund as well as a $20,000 donation received from F.E. Coburn.

3. Significant accounting policies

(a) Investments

Equities, bonds, debentures and mortgages are recorded at cost. The portfolios of two Special Funds (Molson Prize and Lynch-Staunton) are merged with the Endowment Account. The participation of each fund was calculated on the basis of market value. Interest, dividends, gains and losses on disposal of investments are allocated to each fund based on the percentages established at the beginning of each quarter.

Investments are written down to market value when the loss in value is considered to be other than a temporary decline.

(b) Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost and depreciated over their estimated useful lives on the straight-line method, as follows:

Equipment	3 to 5 years
Leasehold improvements	term of the lease (maximum 10 years)

CANADA COUNCIL—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989—*Continued*

(c) Works of art

Works of art acquired by the Canada Council Art Bank are recorded at cost.

(d) Musical instruments—Special Funds

Musical instruments are recorded at cost.

(e) Employee termination benefits

Employees are entitled to specific termination benefits as provided for under the Council's policy and conditions of employment. The cost of these benefits is expensed in the year in which they accrue to employees.

(f) Gains and losses on disposal of investments

Pursuant to subsection 17(2) of the Act, net gains on disposal of investments are credited to the fund capital. Net losses on disposal of investments are charged against this account to the extent of the balance available therein. In the event that losses exceed the balance available in the account, the excess is recorded as an expenditure in the year of realization.

(g) Contributed surplus

Amounts paid during the year for the purchase of works of art acquired by the Canada Council Art Bank are expensed. Such purchases are then capitalized as contributed surplus-works of art and no depreciation is recorded.

(h) Appropriated surplus

The Council has established a reserve to reduce the erosion of value of the original endowment due to inflation. Any changes in this account are approved by the Council.

(i) Capitalization of net income of Special Funds

The Council capitalizes 10% of the revenue less administration expenditure of the Izaak Walton Killam Memorial Fund for Advanced Studies and the Killam Special Scholarship Fund, in accordance with advice received from the trustees of these Funds in order to preserve the equity of these Funds for future beneficiaries. However, for the purposes of the Funds, the Council reserves the right to draw at any time on the accumulated net income capitalized.

(j) Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The employees and the Council contribute equally to the cost of the Plan. This contribution represents the total liability of the Council.

(k) Parliamentary appropriations

Parliamentary appropriations to the Council are recorded as revenue in the year in which they are approved by Parliament.

(l) Grants and services

Grants approved by the Council are recorded as expenditure in the appropriate year as determined by the Treasurer in consultation with the Arts Division. Cancelled grants and refunds of grants approved in previous years, are shown as revenue. Services to the arts include juries, advisory committees, prizes and other costs that directly serve artists or the arts community. These services are recorded as expenditure in the year in which they are incurred.

4. Investments

	1989		1988	
	Cost	Market value	Cost	Market value
	(in thousands of dollars)			
Endowment Account				
Bonds and debentures	47,633	47,146	44,424	46,190
Equities	43,628	52,535	50,853	56,870
Mortgages	1,912	1,912	2,091	2,091
	93,173	101,593	97,368	105,151
Special Funds				
Bonds and debentures	18,951	18,550	18,031	18,281
Equities	10,923	14,569	13,264	15,516
Mortgages	298	298	322	322
	30,172	33,417	31,617	34,119

5. Equipment and leasehold improvements

	1989			1988
	Cost	Accumulated depreciation and amortization	Net book value	Net book value
	(in thousands of dollars)			
Equipment	1,873	1,072	801	802
Leasehold improvements	928	311	617	636
	2,801	1,383	1,418	1,438

6. Deferred credits

	1989	1988
	(in thousands of dollars)	
Deferred revenue—Art Bank rentals of works of art	276	316
Canadian Commission for UNESCO	220	232
Touring Office	73	
	569	548

The deferred credit amounts from the Canadian Commission for UNESCO and the Touring Office represent funds received for specific programs for which expenditures have not yet been incurred.

7. Due to Special Trusts

These funds have been accounted for separately due to special conditions related to the donations. Trusts with balances exceeding $50,000 are:

(i) Glenn Gould Prize Fund

The Council received $475,113 from the Glenn Gould Memorial Foundation to provide a prize of $50,000 every three years (funds permitting) to an outstanding individual for his or her original contribution to the field of music and communications. Since inception, the fund has earned $189,996, and has received a further advance of $50,000. As at March 31, 1989, the balance stood at $610,419.

CANADA COUNCIL—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989—*Concluded*

(ii) Joseph S. Stauffer Fund

The Council received $350,000 from the Estate of Joseph S. Stauffer, the income from which is to provide prizes to encourage promising young Canadians in the fields of music, visual arts and literature. Since inception, the fund has earned $135,062 and has received a further advance of $50,000. As at March 31, 1989, the balance stood at $476,617.

(iii) The Duke and Duchess of York Prize in Photography

The Council received an endowment of $170,000 from the Government of Canada to mark the occasion of the marriage of The Duke and Duchess of York. The income from this endowment is to be used to provide an annual scholarship to a professional artist for personal creative work or advanced study in photography. Since inception, the endowment has earned $33,643. As at March 31, 1989, the balance stood at $171,283.

(iv) Visiting Foreign Artists Program

The Visiting Foreign Artists Program is administered by the Arts Awards Service of the Canada Council on behalf of the Department of External Affairs. It is a residency program through which professional Canadian organizations receive assistance to invite distinguished foreign artists from any country outside Canada for periods ranging from two weeks to four months. As at March 31, 1989, the balance stood at $117,479.

(v) Petro Canada Award

Petro Canada donated $50,000 towards an award in the media arts. The income from this donation is to be used to provide an annual award to an artist who has achieved outstanding and innovative use of new technology in the media arts. Since inception, the donation earned $8,765. As at March 31, 1989, the balance stood at $53,765.

(vi) Japan-Canada Fund

The Council received an endowment of $966,651 from the Government of Japan "to further strengthen the relations between Canada and Japan." After consultations with the Embassy of Japan, the income from the endowment is to be used to fund programs that will encourage artistic exchange between the two countries. Since inception, the endowment has earned $85,005. As at March 31, 1989, the balance stood at $1,051,656.

8. Grants and services

On March 31, 1988, Council received and recorded as revenue a one-time parliamentary appropriation of $8 million to be expended on grants. These monies were expended in the year ended March 31, 1989.

9. Lease commitments

The Council is a party to long-term leases with respect to rental accommodation. The aggregate minimum annual rental is as follows:

	(in thousands of dollars)
1990	1,879
1991	2,006
1992	1,986
1993	1,986
1994	1,986
1995-1999	5,966

SCHEDULE OF ADMINISTRATION EXPENDITURE
OF THE ENDOWMENT ACCOUNT
FOR THE YEAR ENDED MARCH 31, 1989
(in thousands of dollars)

	Arts	Canadian Commission for UNESCO	General	Total 1989	Total 1988
Salaries	5,235	595	3,108	8,938	8,606
Employee benefits	788	89	483	1,360	1,280
Office accommodation	943	119	1,077	2,139	2,175
Staff travel	666	66	91	823	958
Professional and special services	380	18	379	777	568
Communications	375	42	207	624	672
Informatics	3	2	524	529	481
Meeting expenses including members' honoraria	94	172	225	491	441
Depreciation and amortization	30		409	439	378
Investment portfolio management			370	370	319
Printing, publications and duplicating	149	26	106	281	300
Office expenses and equipment	80	13	156	249	270
Miscellaneous	67	1	18	86	98
	8,810	1,143	7,153	17,106	16,546

SUMMARY PAGE

CANADA DEPOSIT INSURANCE CORPORATION

MANDATE

To provide limited insurance in respect of deposits with federal institutions (banks, trust and loan companies) and approved provincial institutions (trust and loan companies). To be instrumental in the promotion of standards of sound business and financial practices for member institutions and to promote and otherwise contribute to the stability and competitiveness of the financial system in Canada.

BACKGROUND

The corporation was established by the *Canada Deposit Insurance Corporation Act* in 1967. Member institutions pay annual premiums to the Deposit Insurance Fund to meet depositors' claims. Recent payments to depositors of insolvent financial institutions have caused this fund to have a net deficit position. Premium rates were increased in 1985 and annual premium revenue of the Fund is now approximately $200 million.

CORPORATION DATA

HEAD OFFICE	320 Queen Street P.O. Box 2340, Station D Ottawa, Ontario K1P 5W5
STATUS	— Schedule III, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Gilles Loiselle, P.C., M.P. Minister of State for Finance.
DEPARTMENT	Finance
YEAR AND MEANS OF INCORPORATION	1967; by the *Canada Deposit Insurance Corporation Act* (R.S.C. 1985, c. C-3).
CHIEF EXECUTIVE OFFICER	Charles C. de Léry
CHAIRMAN	Ronald McKinlay
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1988	**1987**	**1986 (restated)**	**1985**
At the end of the year				
Total Assets	732	735	1,001	1,676
Obligations to the private sector	nil	581	1,277	1,034
Obligations to Canada	1,747	1,258	965	956
Equity of Canada*	(1,017)	(1,108)	(1,245)	(1,235)
Cash from Canada in the year				
— budgetary	nil	nil	nil	nil
— non-budgetary	489	293	9	956

* Represents deficiency in the Insurance Fund.

CANADA DEPOSIT INSURANCE CORPORATION

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of the Canada Deposit Insurance Corporation and all information in this annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements include some amounts that are necessarily based on management's best estimates and judgement.

The financial statements have been prepared by management in accordance with generally accepted accounting principles which have been consistently applied, except for the change in the method of accounting for interest income recognition as explained in Note 3. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained in accordance with the Financial Administration Act and regulations as well as the Canada Deposit Insurance Corporation Act and by-laws of the Corporation. The system of internal controls is augmented by internal audit which conducts periodic reviews of different aspects of the Corporation's operations. In addition, the internal and external auditors have free access to the audit committee of the Board, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting.

These financial statements have been independently examined by the Corporation's auditor, the Auditor General of Canada, and his report is included herein.

Charles C. de Léry
President and Chief Executive Officer

B. C. Scheepers
Vice-President, Operations

Johanne R. Lanthier
Comptroller

AUDITOR'S REPORT

TO THE MINISTER OF FINANCE

I have examined the balance sheet of the Canada Deposit Insurance Corporation as at December 31, 1988 and the statements of deposit insurance fund, investment and administrative operations and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, except for the change in the method of recognizing interest income as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Canada Deposit Insurance Corporation Act and the by-laws of the Corporation.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
February 20, 1989

BALANCE SHEET AS AT DECEMBER 31, 1988
(in thousands of dollars)

ASSETS	1988	1987
Cash and treasury bills	62,348	22,239
Premiums and other accounts receivable	2,245	13,237
Mortgages	147	316
Furniture, equipment and leasehold improvements	591	670
	65,331	36,462
Loans to member institutions and others (Note 4)	162,368	1,061,505
Claims against insolvent member institutions (Note 5)	1,088,247	867,148
	1,250,615	1,928,653
General provision for loss (Note 6)	(584,000)	(1,230,000)
	666,615	698,653
	731,946	735,115

LIABILITIES	1988	1987
Bank indebtedness		368
Accounts payable	2,565	2,636
Loans from member institutions		581,871
Loans from Consolidated Revenue Fund (Note 7)	1,746,486	1,257,803
	1,749,051	1,842,678
DEPOSIT INSURANCE FUND		
Deficit at year end	(1,017,105)	(1,107,563)
	731,946	735,115

Approved by the Board:

R.A. McKINLAY
Chairman

M. MARCEL CARON
Director

CANADA DEPOSIT INSURANCE CORPORATION—*Continued*

STATEMENT OF DEPOSIT INSURANCE FUND
FOR THE YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Deficit, beginning of year	(1,107,563)	(1,245,285)
Insurance operations		
Premiums (Note 8)	215,631	199,665
Interest on loans to member institutions and others	5,771	91,826
Other interest	139	53
	221,541	291,544
Interest on loans from Consolidated Revenue Fund	142,458	99,287
Interest on loans from member institutions	22,713	81,224
Cost of guarantees		2,801
Interest in respect of insured deposits		570
Provision for loss adjustment	(40,000)	(35,000)
	125,171	148,882
Gain from insurance operations for the year	96,370	142,662
Deficit before net loss from investment and administrative operations	(1,011,193)	(1,102,623)
Net loss from investment and administrative operations	(5,912)	(4,940)
Deficit, end of year	(1,017,105)	(1,107,563)

STATEMENT OF INVESTMENT
AND ADMINISTRATIVE OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Interest revenue		
Treasury bills	1,936	3,032
Other	247	941
	2,183	3,973
Expenses		
Inspection and other fees	3,189	5,427
General and administrative	2,519	1,531
Salaries and employee benefits	2,387	1,955
	8,095	8,913
Net loss from investment and administrative operations	(5,912)	(4,940)

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Operating activities		
Gain from insurance operations	96,370	142,662
Net loss from investment and administrative operations	(5,912)	(4,940)
Non-cash items included in gain or net loss		
Depreciation and amortization	193	166
Decrease in other non-cash items	(12,882)	(45,959)
Collection of mortgages	168	424
Loans to member institutions and others	(58,612)	14,298
Repayment of loans from member institutions	(576,654)	(201,591)
Cost of guarantees		(275,000)
Payments of claims against insolvent member institutions	(375)	(116,673)
Recoveries of claims against insolvent member institutions	109,613	153,733
Cash used in operating activities	(448,091)	(332,880)
Investing activities		
Purchase of fixed assets—Net	(115)	(251)
Financing activities		
Increase in loans from Consolidated Revenue Fund	488,683	292,591
Increase (decrease) in cash	40,477	(40,540)
Cash, beginning of year	21,871	62,411
Cash, end of year	62,348	21,871
Cash comprised of		
Treasury bills	62,348	22,239
Bank indebtedness		(368)
	62,348	21,871

CANADA DEPOSIT INSURANCE CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988

1. Authority and objective

The Corporation was established in 1967 by the Canada Deposit Insurance Corporation Act (the CDIC Act). It is a Crown corporation named in Schedule III (formerly Schedule C) Part I of the Financial Administration Act.

The objects of the Corporation are to provide insurance against the loss of part or all of deposits, to be instrumental in the promotion of standards of sound business and financial practices for member institutions, and to promote and otherwise contribute to the stability and competitiveness of the financial system in Canada. The aforementioned objects are to be pursued for the benefit of depositors and in a manner so as to minimize the exposure of the Corporation to loss.

The Corporation has the power to do all things necessary or incidental in the furtherance of its objects including the acquisition of assets from or guarantee of loans to a member institution. It may make or cause to be made inspections of member institutions, prescribe standards of sound business and financial practices, and act as liquidator, receiver or inspector of a member institution or a subsidiary thereof.

2. Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

These financial statements do not reflect the assets, liabilities or operations of member institutions whose operations the Corporation is financing in order to secure an orderly wind down.

The more significant policies adopted are set out below.

Premium recognition

Premiums are based on insured deposits with member institutions as at April 30 of each year and are collectible in two equal instalments on June 30 and December 31 of the year. Premiums are recognized when assessed.

General provision for loss

The general provision for loss reflects the Corporation's best estimate of losses in respect of only those member institutions against which the Corporation has or is certain to have a financial claim. This estimate includes consideration of losses expected in respect of claims against insolvent member institutions arising from payments made to insured depositors and of loans made to member institutions under an agency or loan agreement.

Claims against insolvent member institutions and loans to member institutions and others, may be written-off in full or in part when, in the opinion of the Corporation, there is reasonable certainty that the claims and loans will not be fully realized. This would generally occur when a period of three years has elapsed since the intervention by the Corporation. The Corporation is required to exercise judgement in arriving at its decision to write-off all or a portion of its claims and loans. Also the amount written-off depends largely on the availability of reliable information regarding the amount the Corporation expects to lose with respect to a particular insolvent member institution.

Interest income recognition

The Corporation charges interest on loans advanced, directly or indirectly, by it in accordance with the specific terms of the loan agreements. It ceases to recognize interest income when an insolvent member institution is placed in liquidation or when there is a reasonable doubt as to the ultimate collectibility of the interest. When reasonable doubt is present, interest revenue is recognized only as cash is received.

3. Changes in accounting policies

General provision for Loss

During the year, the Corporation changed its policy with respect to accounting for identified losses. In previous years assets were reported net of identified losses on the balance sheet, but were not formally written-off. The Corporation's new policy is explained in Note 2. Identified losses are no longer segregated from the general provision for loss. Accordingly, all identified losses recorded as at December 31, 1987 have been reversed to the general provision for loss prior to writing-off $606 million as at December 31, 1988. This change in accounting policy has no effect on the Corporation's deficit.

Interest income recognition

During the year, the Corporation changed its policy with respect to the recognition of interest income on loans to member institutions and others. In prior years, interest was recognized on all interest bearing loans except those made to insolvent member institutions in liquidation. If the ultimate collectibility of the interest was in doubt, a provision for loss was recorded to reflect the uncertainty. The new policy is explained in Note 2 and the change in policy has no effect on the Corporation's deficit. Under the old policy, the Corporation would have recorded an additional $43 million of interest income during 1988 but would have provided for it fully in its general provision for loss.

This accounting policy change is being applied prospectively because its effect on prior periods cannot be reasonably determined.

4. Loans to member institutions and others

All loans to member institutions that were under agency agreements, with the exception of the CCB Mortgage Investment Corporation arrangements, expired during 1988.

The Crown Trust Company, Greymac Trust Company and Fidelity Trust Company were all placed in liquidation during the year. The Corporation asserted claims against all of these insolvent member institutions. The amount of the claims has been reclassified from "Loans to member institutions and others" to "Claims against insolvent member institutions".

In October 1988, under the general powers of subsection 10(1) (formerly subsection 11(1) of the CDIC Act), the Corporation entered into a loan agreement to assist in the sale of a member institution. As at December 31, 1988, the Corporation has a fully secured $74 million loan outstanding with respect to this transaction.

5. Claims against insolvent member institutions

Claims against insolvent member institutions arise through the subrogation of the rights and interests of the depositor when the Corporation pays that depositor's claim. The Corporation also asserts a claim against insolvent member institutions in liquidation, arising out of loans previously advanced by the Corporation. The Corporation has asserted claims against all its insolvent member institutions which were placed in liquidation.

CANADA DEPOSIT INSURANCE CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988—*Concluded*

6. General provision for loss

The following table provides details of the calculation of the general provision for loss as reflected on the balance sheet:

	1988	1987
	(in thousands of dollars)	
Balance, beginning of year	1,230,000	1,265,000
Provision for loss adjustment	(40,000)	(35,000)
	1,190,000	1,230,000
Less write-offs		
Loans to member institutions and others	90,193	
Claims against insolvent member institutions	515,807	
	606,000	
Balance, end of year	584,000	1,230,000

The Corporation is a claimant in a number of judicial actions arising out of the collapse or insolvency of various member institutions. The general provision for loss does not take into account any potential recoveries which may arise should an action be resolved in the Corporation's favour.

7. Loans from Consolidated Revenue Fund

With the approval of the Governor in Council, the Corporation can borrow up to $3 billion from the Consolidated Revenue Fund.

8. Premiums

In accordance with subsection 21(1)(b) (formerly subsection 19(2)(b)) of the CDIC Act, the Corporation, with the approval of the Governor in Council, sets the premium rate for any premium year at one-sixth of one percent, or such smaller proportion of one percent, of insured deposits. For the premium year 1988, the premium rate was set at one-tenth of one percent of insured deposits, the same rate as in 1987.

9. Contingent liabilities

The Corporation is a defendant in a number of judicial actions arising out of the collapse or insolvency of various member institutions. The Corporation does not believe it has any liability as a result of these actions and has therefore not provided for any potential claims.

10. Income taxes

The Corporation is subject to federal income taxes although it is not subject to taxation on premiums assessed and may not take a deduction for claims paid.

The Corporation has available losses which can be carried forward to reduce future years' earnings otherwise subject to taxation. Such losses total $542 million and expire as follows:

Originating taxation year	Expiring taxation year	Amount (in thousands of dollars)
1984	1991	44,000
1985	1992	81,000
1986	1993	85,000
1987	1994	167,000
1988	1995	165,000
		542,000

11. Insured deposits

Deposits insured by the Corporation, on the basis of returns received from member institutions, as at April 30, 1988 and 1987 were as follows:

	1988	1987
	(in billions of dollars)	
Federal Institutions	198	183
Provincial Institutions	18	16
	216	199

12. Long-term operating lease commitments

The following is a schedule of future minimum lease payments for premises expiring in 1991.

Year ending December 31	Amount
	$
1989	436,000
1990	436,000
1991	214,000
	1,086,000

13. Comparative figures

Certain of the 1987 figures have been reclassified so as to conform with the presentation adopted for 1988.

SUMMARY PAGE

CANADA DEVELOPMENT INVESTMENT CORPORATION

MANDATE

To effectively manage Crown corporations and investments which are assigned to it and to effect the privatization of these, where appropriate.

BACKGROUND

CDIC at present manages Canada Eldor Inc. (successor to Eldorado Nuclear Limited), Teleglobe Canada, Nordion International Inc., Theratronics International Limited and Canada's participations in Varity Corporation and in National Sea Products Limited plus other minor assets of Canada. The governments of Canada and Saskatchewan announced in February 1988 a plan to merge the assets of Eldorado with those of Saskatchewan Mining Development Corporation and privatize them by way of a public share offering. This initiative was authorized by the *Eldorado Nuclear Limited Reorganization and Divestiture Act* (S.C. 1988, C-41) and for this purpose a new corporation, CAMECO - a Canadian Energy and Mining Corporation, was formed on October 1, 1988 by the two governments.

Divestitures already effected by CDIC include, in 1986, The de Havilland Aircraft of Canada, Limited and Canadair Limited and Canada's holdings of Canada Development Corporation shares and, in 1987, the assets and operations of Teleglobe Canada and warrants of Varity Corporation. The operating assets of Eldorado Nuclear Limited were transferred to CAMECO on October 5, 1988 and Canada Eldor Inc. now holds a 38.5 percent interest in CAMECO.

CORPORATION DATA

HEAD OFFICE	Suite 4520 1 First Canadian Place Toronto, Ontario M5X 1A4
STATUS	— Schedule III, Part II — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John McDermid, P.C., M.P. Minister of State (Privatization and Regulatory Affairs).
YEAR AND MEANS OF INCORPORATION	1982; by Canada Development Corporation under the *Canada Business Corporations Act*. Letters patent, May 26, 1982.
CHIEF EXECUTIVE OFFICER	Ward C. Pitfield
CHAIRMAN	W. Darcy McKeough
AUDITOR	Peat, Marwick, Mitchell & Co. and the Auditor General of Canada.

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1988*	1987	1986	1985
At the end of the period				
Total Assets	1,094	285	336	642
Obligations to the private sector	731	nil	nil	144
Obligations to Canada	10	nil	nil	nil
Equity of Canada	139	226	287	485
Cash from Canada to subsidiaries in the period				
— budgetary	nil	(57)	(111)	500
— non-budgetary	nil	nil	nil	nil

* The financial statements of Eldorado Nuclear Limited were consolidated in those of the corporation from October 1, 1988. (Subsequent to that year end, Eldorado's name was changed to Canada Eldor Inc.)

CANADA DEVELOPMENT INVESTMENT CORPORATION

AUDITORS' REPORT

TO THE PRESIDENT OF THE PRIVY COUNCIL

We have examined the consolidated balance sheet of Canada Development Investment Corporation as at December 31, 1988 and the consolidated statements of income (loss) and accumulated deficit, contributed surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the corporation and of its wholly-owned subsidiaries that have come to our notice during our examination of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, and the charters and by-laws of the corporation and its wholly-owned subsidiaries and with the directive given to the corporation as disclosed in Note 10(e).

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada

Peat Marwick
Chartered Accountants

Toronto, Canada
March 16, 1989

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1988
(with comparative figures for 1987)
(in thousands of dollars)

ASSETS	1988	1987
Current assets		
Cash and short-term investments	347,965	7,618
Cash restricted as to use (Note 4)	68,830	77,079
Receivables	2,755	544
	419,550	85,241
Investments		
Non-consolidated subsidiaries (Note 5)	116,587	152,691
Other investments (Note 6)	552,641	26,349
	669,228	179,040
Canadair technology rights (Note 7)		20,000
Deferred financing costs	4,401	
Other	741	216
	1,093,920	284,497

LIABILITIES AND SHAREHOLDER'S EQUITY	1988	1987
Current liabilities		
Bank loan and short-term debt	280,090	
Accounts payable and accrued liabilities	107,481	58,210
Notes payable to Atomic Energy of Canada Limited (Note 5 (b))	116,587	
Long-term debt payable within one year	132,629	
	636,787	58,210
Long-term debt (Note 8)	318,601	
SHAREHOLDER'S EQUITY		
Capital stock		
Authorized—Unlimited number of common shares		
Issued and fully paid—101 common shares	1	1
Contributed surplus	138,531	3,506,765
Accumulated deficit (Note 9)		(3,280,479)
	138,532	226,287
Commitments and contingencies (Note 10)		
	1,093,920	284,497

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board:

W. DARCY McKEOUGH
Director

PATRICK J. KEENAN
Director

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

CONSOLIDATED STATEMENT OF INCOME (LOSS) AND ACCUMULATED DEFICIT
YEAR ENDED DECEMBER 31, 1988
(with comparative figures for 1987)
(in thousands of dollars)

	1988	1987
Net (loss) income of subsidiaries and investees		
Eldorado Nuclear Limited (January 1 to September 30, 1988) (Note 5 (a))	(35,341)	12,045
Cameco (Note 6)	6,716	
	(28,625)	12,045
Expenses		
Corporate expenses (income), net (Note 11)	126	(3,023)
Financial expense, net (Note 8)	8,589	
Provisions for losses and contingencies		
The de Havilland Aircraft of Canada, Limited (Note 10 (a))		19,000
Massey-Combines Corporation	1	
Eldorado Nuclear Limited (Note 5 (a))	47,380	
	56,096	15,977
Net loss	(84,721)	(3,932)
Accumulated deficit, beginning of year	(3,280,479)	(3,220,047)
Dividends	(3,034)	(56,500)
	(3,368,234)	(3,280,479)
Accumulated deficit charged against contributed surplus (Note 9)	3,368,234	
Accumulated deficit, end of year		(3,280,479)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS
YEAR ENDED DECEMBER 31, 1988
(with comparative figures for 1987)
(in thousands of dollars)

	1988	1987
Balance, beginning of year	3,506,765	3,506,765
Charge from accumulated deficit (Note 9)	3,368,234	
Balance, end of year	138,531	3,506,765

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1988
(with comparative figures for 1987)
(in thousands of dollars)

	1988	1987
Operations		
Corporate operations	(126)	3,023
Items not requiring cash	56	535
	(70)	3,558
Sale of notes receivable and other investments	3,209	48,600
Proceeds received on disposition of operating assets of Eldorado (Note 5 (a))	293,879	
Cash provided by Eldorado discontinued operations	20,265	
Proceeds received on termination of Canadair royalty agreement	20,000	
	337,353	48,600
Cash portion of dividend paid	(3,034)	(56,500)
	334,249	(4,342)
Financing		
Increase in bank loans	137,936	
Decrease in long-term debt	(123,827)	
Interest and financing expenses net of amortization of foreign exchange losses	(8,835)	
Decrease in accrued interest and other	824	
	6,098	
Increase (decrease) in cash	340,347	(4,342)
Cash, beginning of year	7,618	11,960
Cash, end of year	347,965	7,618

For purposes of this statement, cash and increase (decrease) in cash includes cash and short-term investments and excludes cash transactions relating to cash restricted as to use.
The accompanying notes are an integral part of these consolidated financial statements.

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1988
(All dollar amounts are stated in thousands)

1. The corporation

Canada Development Investment Corporation ("the corporation") was incorporated on May 26, 1982 under the provisions of the Canada Business Corporations Act and is wholly-owned by Her Majesty in right of Canada. The corporation is subject to the Financial Administration Act and is an agent of Her Majesty.

2. Activities of the corporation

In a statement dated October 30, 1984, the Minister of the Government of Canada ("Government") responsible for the corporation announced the intention of the Government to cause the corporation to dispose of its investments in Massey-Ferguson Limited ("Massey-Ferguson") now Varity Corporation ("Varity") and Massey-Combines Corporation ("Massey-Combines"), Canadair Limited ("Canadair"), The de Havilland Aircraft of Canada, Limited ("de Havilland") and Eldorado Nuclear Limited ("Eldorado") (effective January 30, 1989, Canada Eldor Inc.) in an orderly fashion. Disposals of the corporation's investments in de Havilland and Canadair were completed in 1986. The remaining investment in Massey-Combines was written off in 1988.

During 1988, a formal plan to dispose of the operating assets of Eldorado to Cameco, a Canadian Mining and Energy Corporation ("Cameco") was approved by the Government and the corporation's Board of Directors. Such disposition was executed on October 5, 1988 (Note 5(a)). Eldorado now holds a 38.5% interest in Cameco (Note 6).

As a result of this transaction, it is expected that the only significant activities of Eldorado subsequent to October 5, 1988 will consist of monitoring its equity interest in Cameco and continuing the servicing of its debt.

As at December 31, 1988, the Government provides authorities and guarantees for the borrowing of Eldorado of $700,000 of which $689,984 is being utilized at December 31, 1988.

Since Eldorado's ability to generate future cash flows will depend primarily on future dividends received from and dispositions of its investment in Cameco, Eldorado's continued existence as a going concern will depend on its ability to obtain debt financing within the extent of its statutory borrowing limits, or future capital injections by the corporation or the Government.

On September 30, 1988, the corporation acquired the following two subsidiaries from Atomic Energy of Canada Limited ("AECL"):

(a) Nordion International Inc. ("Nordion") which holds the assets and operations of Radiochemical Company, formerly a division of AECL; and

(b) Theratronics International Limited ("Theratronics") which holds the assets and operations of the former Medical Products Division of AECL.

The Board of Directors of the corporation is continuing to develop approaches to the divestiture of the corporation's remaining investments which would meet the requirements of the Government.

3. Significant accounting policies

(a) Basis of consolidation

The financial statements of Cartierville Financial Corporation Inc. ("Cartierville Financial") a wholly-owned subsidiary, have been consolidated with those of the corporation.

The financial statements of Eldorado, a wholly-owned subsidiary, have been consolidated from October 1, 1988 to December 31, 1988.

Earnings of Eldorado for the period from January 1, 1988 to September 30, 1988 (the period prior to the disposition of Eldorado's operating assets) have been accounted for using the equity method pursuant to the accounting policy discussed below.

(b) Investments in non-consolidated subsidiaries

The corporation's investments in subsidiaries acquired with the objective of eventual disposition or privatization are accounted for on the equity basis, unless (i) there is a formal plan, approved by the Government to dispose of the investment, in which case the investments are carried at the lower of the equity basis carrying value and net realizable value; or (ii) the earnings of the subsidiaries and/or gains or losses on dispositions do not accrue to the benefit of the corporation, in which case the investment is carried at the lower of cost and net realizable value.

A consolidation of the corporation's financial statements and such subsidiaries has not been prepared as the corporation believes that the adopted accounting method provides a more informative presentation to the shareholder. The financial statements of the non-consolidated subsidiaries are attached.

(c) Other investments

The corporation's investment in companies in which the corporation exercises significant influence, but not control, and for which a formal plan exists to dispose of the investment, are carried at the lower of the estimated net realizable value and the carrying value of the investment resulting from the use of the equity method. Under this method, the net income (loss) recognized from the investment is the corporation's pro rata share of the investee's net income, less amortization of any purchase price discrepancy (which is the excess of the cost of the investment over the underlying net book value). Any dividends received will serve to reduce the carrying value of the investment.

Portfolio investments are carried at the lower of cost and estimated net realizable value.

(d) Amortization of deferred financing costs

Debt discounts and issue expenses associated with long-term financing are deferred and amortized over the term of the debt.

(e) Foreign exchange

Long-term debt denominated in foreign currencies is translated into Canadian dollars at rates of exchange in effect at year end. Expenses are translated at rates in effect at the time of the transaction. Translation gains or losses are included in income currently, except for gains or losses relating to long-term debt which are deferred and amortized on a straight-line basis over the remaining term of the debt.

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1988—*Continued*

4. Cash restricted as to use

These funds are held in special accounts (primarily in the Consolidated Revenue Fund of Canada on a non-interest basis) to satisfy payment of contingent liabilities relating to the sale of the corporation's investments in de Havilland and Canadair (see Note 10 (a) and (b)).

5. Investment in non-consolidated subsidiaries

The carrying values of the corporation's investments are as follows:

	Carrying Value December 31, 1987	Acquisitions	Equity in Income	Dispositions	Carrying Value December 31, 1988
Eldorado (a)	152,691		(35,341)	(117,350)	
Nordion (b)		106,937			106,937
Theratronics (b)		9,650			9,650
	152,691	116,587	(35,341)	(117,350)	116,587

(a) Disposition of operating assets of Eldorado

On October 5, 1988 Eldorado concluded the sale of substantially all of its assets to Cameco, a company resulting from the merger of the assets and the operations of Eldorado and Saskatchewan Mining and Development Corporation, for an agreed amount of $816,665 to reflect the fair value of the net assets sold. As consideration for the sale, Eldorado received shares and notes of Cameco which gives Eldorado a 38.5% shareholding in Cameco. The Cameco notes amounting to $293,879 plus interest of $7,501 accruing since October 5, 1988 were all repaid on December 29, 1988 except for an amount of $5,510 to be repaid in 1989. Under the terms of the agreements the parties intend to dispose of their shares of Cameco in stages over the next seven years.

The effect of this transaction, amounting to a loss of $47,380 including the provision for expenses related to the sale of Eldorado's assets and the closing down of its head office, has been reflected in these financial statements.

The assets and liabilities of Eldorado at October 5, 1988 are summarized as follows:

	Sold to Cameco	Consolidated with CDIC	Total
Current assets	157,984	7,539	165,523
Property, equipment and preproduction charges and other	712,895		712,895
Current liabilities and provisions	(15,559)	(172,537)	(188,096)
Long-term debt		(572,972)	(572,972)
	855,320	(737,970)	117,350

The October 5, 1988 transaction can be summarized as follows:

Book value of the assets sold	855,320
Disposal costs	8,725
	864,045
Consideration received	
Promissory notes	293,879
Common shares in Cameco	522,786
	816,665
Loss on disposal	47,380

The net (loss) earnings from Eldorado prior to discontinuance of its operations is comprised of the following:

	1988 (9 months)	1987 (12 months)
Revenue		
Sales of products and services	170,218	335,015
Expenses		
Cost of products and services sold	105,517	213,075
RT & E, exploration, development and administration	9,598	12,557
Income taxes and mineral royalties, net of extraordinary recovery due to loss carry-forwards of $14,763 in 1987	7,899	4,709
Distribution to preferred shareholders	2,623	4,350
Other	2,815	(5,118)
	128,452	229,573
Earnings from discontinued operations	41,766	105,442
Finance expense	(74,998)	(95,916)
Other	(2,109)	2,519
Net (loss) earnings prior to discontinuance	(35,341)	12,045

(b) Acquisition of Nordion and Theratronics

Pursuant to a series of agreements executed on September 30, 1988, the corporation acquired Nordion and Theratronics from AECL.

The share purchase agreement between AECL and the corporation requires the corporation to pay to AECL the fair market value of the shares of Nordion and Theratronics. The agreement also specifies that the fair market value will be estimated as at the date of transfer, but will subsequently be adjusted to an amount equal to the price ultimately received by the corporation in the subsequent privatization sale of Nordion and Theratronics. Furthermore, the agreement specifies that the corporation is not required to make payment of the purchase price to AECL until 60 days after the privatization sale. Accordingly, AECL will ultimately receive the full proceeds realized upon privatization of Nordion and Theratronics, less the corporation's expenses associated with the privatization.

Thus, while the corporation has title to the shares of Nordion and Theratronics and executive management control over their operations prior to their privatization, the corporation did not acquire the normal risks and benefits associated with share ownership. Accordingly, the corporation has recorded its investment in Nordion and Theratronics at a deemed cost represented by the net book values of those companies at December 31, 1988, with an off-setting non-interest bearing note payable to AECL, and has not recognized any income or loss on these investments.

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1988—*Continued*

6. Other investments

	Carrying Value December 31, 1987	Acquisition	Equity in Income	Disposition	Carrying Value December 31, 1988
Cameco		522,786	6,716		529,502
Varity	26,348			(3,209)	23,139
Massey-Combines	1			(1)	
	26,349	522,786	6,716	(3,210)	552,641

Investment in Cameco

In connection with the sale of Eldorado's assets to Cameco, Eldorado took back as part of its consideration 3,850,000 common shares in Cameco, representing a 38.5% ownership interest. An amount of $522,786, reflecting the value agreed by the parties as the fair value of the assets disposed by Eldorado was assigned to the Cameco shares (Note 5 (a)). The parties intend to dispose of the shares in stages over the next seven years. The ultimate recovery of this carrying value of the shares will depend on the outcome of the future dispositions of these shares.

It was determined that, at the date of acquiring the Cameco shares, Eldorado's equity interest in the underlying net book value of Cameco's assets was $316,747 while $522,786 was assigned as the agreed value of the shares. The excess amount was determined to be attributable to various producing and non-producing properties. This amount is being amortized using the straight-line method over the estimated economic life of the various properties, when in production. The amortization of the excess amount amounting to $3,609 in 1988 is being deducted in arriving at the investment income or loss from Cameco.

7. Canadair technology rights

Effective December 22, 1986, the corporation entered into an exclusive agreement, for a term of twenty-one years, with Canadair Limited with respect to the use of the Challenger technology, in return for which the corporation was to receive specified royalties.

Under the terms of the agreement the corporation elected to receive during 1988 an aggregate amount of $20,000 less royalties received at the time of election as consideration for termination of the royalty.

8. Long-term debt

Eldorado	
Loan due 1989-1992 at 5.0% (1.4 billion Japanese yen)	13,359
Euronotes due 1989 to be set semi-annually at LIBOR rate ($100 million U.S.)	119,270
Notes due 1990 at 9.125%	10,093
Loan due 1991 at 4.75% (95 million Swiss francs)	75,459
Loan due 1992 at 15.875% ($44.7 million U.S.)	53,256
Notes due 1992 at 14.5% ($100 million U.S.)	119,270
Bonds due 1992 at 5.25% (9 billion Japanese yen), with 10% of principal due in each of years 1989-1991	85,878
Subtotal	476,585
Less	
Current portion of long-term debt listed above	132,629
Deferred loss on foreign exchange	25,355
Total	318,601

Long-term debt payments due in each of the next four calendar years are:

1989	132,629
1990	23,452
1991	88,817
1992	231,687

Interest on Eldorado's long-term debt for the three months ended December 31, 1988 amounted to $12,819; and interest on short-term debt for the same period amounted to $6,127.

9. Accumulated deficit

Effective as of December 31, 1988, the corporation's shareholder approved the elimination of the December 31, 1988 deficit by a reduction of contributed surplus.

10. Commitments and contingencies

(a) On January 31, 1986, the corporation sold its investment in de Havilland to The Boeing Company ("Boeing"). The corporation and the Government have agreed to indemnify Boeing and de Havilland for certain contingent liabilities and other expenditures which may be incurred by Boeing and de Havilland over a maximum of fifteen years after closing.

These contingent liabilities include the following:

(i) A portion of de Havilland's product liability insurance premiums;

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1988—*Concluded*

(ii) Certain suppliers' claims which may be asserted against de Havilland for production slow-down or termination and potential claims against de Havilland pursuant to product financing agreements up to a maximum of $60,000; and

(iii) Claims related to possible losses caused by health hazards to workers at the de Havilland factory.

Provisions for the contingent liabilities are reflected in these financial statements to the extent that reasonable estimates can be made. Further provisions will be recognized as appropriate in future years when reasonable estimates can be made as to the likely amount, if any, which will ultimately be paid pursuant to the indemnities.

(b) On December 23, 1986, the corporation sold its investment in Canadair Limited to Bombardier-Canadair Inc. The corporation and the Government have agreed to indemnify Bombardier-Canadair Inc. and Canadair Limited for certain contingent liabilities and other expenditures which may be incurred by Bombardier-Canadair Inc. and Canadair Limited over a maximum of five years from December 23, 1986, and for specified product related claims for fifteen years for which insurance coverage is unavailable or economically impracticable to obtain. Reasonable estimates of the effects, if any, of such indemnities cannot be made at this time. Such amounts will be recognized in future years, as appropriate, when reasonable estimates can be made as to the likely amount, if any, which will ultimately be paid pursuant to the indemnities.

(c) Under the terms of the agreement to transfer assets from Eldorado to Cameco, Eldorado and Cameco agreed on a formula for sharing any future joint costs, excluding normal operating costs, related to certain specified existing wastes accumulated by Eldorado to October 5, 1988, the date of transfer of assets. Cameco assumed liability for the first $2,000 of joint costs. The next $98,000 in joint costs will be shared 23/98ths by Cameco, 75/98ths by Eldorado. Eldorado assumed liability for joint costs in excess of $100,000.

(d) In connection with its previous operations, Eldorado is the defendant in certain litigation. While the amount of any ultimate liability cannot yet be determined, Eldorado, after discussion with legal counsel, is of the opinion that there will be no material adverse effect on its financial position.

(e) Pursuant to a directive received from the Government, the Board of Directors is negotiating to acquire a controlling interest in a Canadian company.

11. Corporate expenses (income), net

	1988	1987
Interest earned on short-term investments and notes receivable	(692)	(3,573)
Other income	(69)	(96)
	(761)	(3,669)
Corporate and divestiture expenses	5,319	2,735
	4,558	(934)
Recovery of divestiture expenses incurred in prior years	(4,432)	(2,089)
Net operating expenses (income)	126	(3,023)

12. Income tax

As at December 31, 1988, Cartierville Financial has tax losses of $268,500 available to reduce taxable income, expiring as follows:

1990	176,500
1991	92,000
	268,500

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX 1

NORDION INTERNATIONAL INC.

AUDITORS' REPORT

We have examined the balance sheet of Nordion International Inc., as at December 31, 1988 and the statements of income, retained earnings and changes in financial position for the nine month period then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company, as at December 31, 1988 and the results of its operations and the changes in its financial position for the nine month period then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

We further report that, in our opinion, the transactions of the Corporation that have come to our notice in the course of our examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the charter and by-laws of the Corporation and any directives given to the Corporation.

Peat Marwick
Chartered Accountants

Ottawa, Canada
January 31, 1989

BALANCE SHEET DECEMBER 31, 1988
(with comparative information for March 31, 1988)
(in thousands of dollars)

ASSETS	December 31 1988	March 31 1988
Current assets		
Cash and short-term investments	5,179	11
Accounts receivable	17,674	16,618
Inventory (Note 4)	40,786	42,102
	63,639	58,731
Plant and property (Note 5)	36,936	37,901
Deferred charges (Note 6)	26,284	24,603
	126,859	121,235

LIABILITIES AND SHAREHOLDER'S EQUITY	December 31 1988	March 31 1988
Current liabilities		
Accounts payable and accrued liabilities	11,502	6,609
Deferred revenue	4,274	4,819
	15,776	11,428
Employee termination benefits	3,135	2,777
Loans payable (Note 7)	1,011	1,355
Total liabilities	19,922	15,560
SHAREHOLDER'S EQUITY		
Capital stock (Note 1)	96,310	
Retained earnings, per accompanying statement	10,627	105,675
	106,937	105,675
	126,859	121,235

See accompanying notes to financial statements.

On behalf of the Board:

W. R. TESCHKE
Director

W. P. O'NEIL
Director

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX 1—*Continued*

NORDION INTERNATIONAL INC.—*Continued*

STATEMENT OF INCOME
NINE MONTH PERIOD ENDED DECEMBER 31, 1988
(with comparative information for the year ended March 31, 1988)
(in thousands of dollars)

	December 31 1988	March 31 1988
Sales	74,401	91,387
Cost of goods sold	48,231	55,561
Gross margin	26,170	35,826
Operating expenses		
Selling and marketing	4,837	5,834
Product development	1,344	2,448
Administration	6,147	7,697
	12,328	15,979
Operating income	13,842	19,847
Other income	1,854	1,004
Net income (Note 8)	15,696	20,851

See accompanying notes to financial statements.

STATEMENT OF RETAINED EARNINGS
NINE MONTH PERIOD ENDED DECEMBER 31, 1988
(with comparative information for the year ended March 31, 1988)
(in thousands of dollars)

	December 31 1988	March 31 1988
AECL investment, beginning of period	105,675	94,148
Net income for the period	15,696	20,851
Cash balances transferred to AECL	(14,434)	(9,324)
Capitalization, July 1, 1988 (Note 1)	(96,310)	
Retained earnings, end of period	10,627	105,675

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
NINE MONTH PERIOD ENDED DECEMBER 31, 1988
(with comparative information for the year ended March 31, 1988)
(in thousands of dollars)

	December 31 1988	March 31 1988
Cash from operations		
Net income	15,696	20,851
Depreciation and amortization	3,731	6,015
	19,427	26,866
Decrease (increase) in operating working capital	4,608	(15,165)
Other	358	510
Cash from operations	24,393	12,211
Cash used in investing activities		
Plant and property	1,357	1,755
Deferred charges	3,090	606
Cash invested	4,447	2,361
Cash used in financing activities		
Repayment of loans payable	344	523
Increase in cash before transfers to AECL	19,602	9,327
Cash balances transferred to AECL	14,434	9,324
Increase in cash during the period	5,168	3
Cash, beginning of period	11	8
Cash and short-term investments, end of period	5,179	11

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988
(All dollar amounts are stated in thousands)

Nordion International Inc. is incorporated under the Canada Business Corporations Act and is subject to the Financial Administration Act and the Government Companies Operations Act.

1. Privatization

On March 4, 1988, the Minister of State for Privatization announced the Government's intention to sell the Radiochemical Company ("RCC"), a division of Atomic Energy of Canada Limited ("AECL") to the private sector. As part of this process Nordion International Inc. (the "Company") was incorporated as a wholly-owned subsidiary of AECL and the assets and liabilities of RCC were transferred to the Company in exchange for 100,000 common shares. Since the transaction occurred between companies under common control, a value of $96,310 was assigned to capital stock for accounting purposes representing the net book value of RCC assets and liabilities acquired. The authorized capital stock of the Company is comprised of an unlimited number of no par value common shares. The effective date of these transactions was July 1, 1988. All of the outstanding common shares were sold to Canada Development Investment Corporation ("CDIC") effective September 30, 1988.

No assessment of the potential impact of privatization has been made or reflected in these financial statements.

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX 1—*Continued*

NORDION INTERNATIONAL INC.—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988—*Continued*

2. Basis of preparation

These financial statements present the assets and liabilities as at the Company's year-end of December 31, 1988 and the combined revenues and expenses of the Company for the six month period ended December 31, 1988 and its predecessor, RCC, for the three month period ended June 30, 1988.

3. Accounting policies

Significant accounting policies are summarized below.

Plant and property

Plant and property is recorded at cost and depreciated on a straight-line basis over the estimated useful life of the underlying assets, as follows:

Buildings and site services	25 to 30 years
Other plant and equipment	3 to 10 years

Decommissioning and waste disposal costs

Future decommissioning costs of nuclear facilities and waste disposal costs cannot be quantified at this time due to uncertainty as to their exact nature and timing. Accordingly, the Company expenses these costs when incurred.

Inventory

Inventory is valued at the lower of average cost and replacement cost. Decay of radioactive inventory is expensed as it occurs.

Cobalt-60 inventory is recorded on discharge from reactors. In certain contractual circumstances the Company records advance payments as in-reactor inventory.

Foreign currency translation

Transactions denominated in a foreign currency are translated into Canadian dollars at exchange rates in effect on the transaction date. Foreign currency monetary assets and liabilities are translated at rates in effect at the balance sheet date. Exchange gains and losses arising from these translations are included in other income.

Deferred charges

Costs of modifications to production facilities owned by others to permit isotope production are deferred and amortized over the minimum contractual production period.

Pension plan

Employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. The Company's contributions to the plan are limited to matching the employees' contributions on account of current service. These payments are charged to income on a current basis and represent the total pension obligations of the Company.

Employee termination benefits

Employees are entitled to specific termination benefits defined under collective agreements and conditions of employment. These benefits are recorded on the basis of actuarial assumptions as to future events.

Warranty provision

A provision is recorded for estimated warranty costs at the time of product sale.

Revenue recognition

Revenue is recognized at the time of shipment of goods to the customer, with the exception of major equipment sales, where a portion of revenue is deferred pending installation at the customer's premises.

4. Inventory

	December 31 1988	March 31 1988
Raw materials and supplies	24,330	15,593
In-reactor inventory	10,714	21,675
Work-in-process	1,128	2,305
Finished goods	4,614	2,529
	40,786	42,102

5. Plant and property

	Cost	Accumulated depreciation	Net December 31 1988	Net March 31 1988
Land	130		130	180
Site services	1,015	637	378	408
Buildings	32,846	7,976	24,870	25,391
Machinery and equipment	18,765	7,207	11,558	11,922
	52,756	15,820	36,936	37,901

6. Deferred charges

	Cost	Amortization	Net December 31 1988	Net March 31 1988
Reactors	24,653	4,489	20,164	21,196
Cyclotron	3,625	1,333	2,292	2,503
Other	3,904	76	3,828	904
	32,182	5,898	26,284	24,603

7. Related party transactions

The loans payable are due to AECL and bear interest at rates from 6 11/16% to 7 5/8% with final payments due prior to September 1992. Principal repayments on these loans are as follows:

	$
1989	243
1990	262
1991	281
1992	225
	1,011

Interest paid totalled $64 during the period (March 31, 1988—$117).

AECL and Theratronics International Inc., a corporation controlled by CDIC, provide the Company with manufactured products and processed raw materials. Total purchases of goods and services in the period totalled $11,164 (March 31, 1988—$16,074). At December 31, 1988, $1,568 of this was included in Accounts Payable.

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX 1—*Concluded*

NORDION INTERNATIONAL INC.—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988—*Concluded*

8. Income taxes

Initially the Company, as a division and then a subsidiary of AECL, was exempt from income taxes. However, as a wholly-owned subsidiary of CDIC, this exemption does not apply and the Company became subject to federal income taxes effective September 30, 1988. As a wholly-owned subsidiary of a Federal Crown Corporation, the Company is not subject to provincial income taxes.

The Company's expected income tax rate is the net Federal statutory rate of 28% less the applicable manufacturing and processing deduction of 2%. The 1988 effective tax rate is zero due to the utilization of the currently deductible portion of the permanent differences related to the assets of the Company at the date it became subject to income taxes.

9. Commitments and contractual obligations

Minimum lease payments in accordance with operating lease commitments are as follows:

	$
1989	700
1990	200
1991	200
1992	100
1993	100
Thereafter	1,200
	2,500

The Company has commitments to purchase cobalt 60 produced in nuclear generating stations for various periods to the year 2003. Annual payments are expected to approximate $30,000 per year in each of the next five years.

The Company is committed to AECL to make capital contributions for isotope production facilities in the amount of $16,600 to 1991.

10. Sales agents' remuneration

During the period, the Company paid sales commissions totalling $701 to the following agents: Bio Nuclear Diagnostica Industria E. Comercio Ltda. (Brazil); Eastronics Limited (Israel); Gammaster BV (Netherlands); General Machinery Company Ltda. (Chile); International de Energia Nuclear (Mexico); Jacobson Van Den Berg (Hong Kong) Ltd. (Hong Kong); Rashid Trading Corporation Ltd. (Bangladesh); Kostas Karayannis SA (Greece); Marubeni Corporation (Japan); Radiotherapy & Medical Systems Pty. Ltd. (Australia); Societa Lombarda Di Televisione srl (Italy); Spring Port Taiwan Limited (Taiwan) and Tamathe srl (Argentina).

11. Comparative information

Certain comparative information has been reclassified to conform with the current period's presentation.

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX 2

THERATRONICS INTERNATIONAL LIMITED

AUDITORS' REPORT

We have examined the balance sheet of Theratronics International Limited, as at December 31, 1988 and the statements of income, retained earnings and changes in financial position for the nine month period then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company, as at December 31, 1988 and the results of its operations and the changes in its financial position for the nine month period then ended in accordance with generally accepted accounting principles.

We did not examine the statements of income, retained earnings and changes in financial position for the nine month period ended December 31, 1987 and the year ended March 31, 1988, and accordingly, we do not express an opinion on them.

We further report that, in our opinion, the transactions of the Corporation that have come to our notice in the course of our examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the charter and by-laws of the Corporation and any directives given to the Corporation.

Peat Marwick
Chartered Accountants

Ottawa, Canada
February 3, 1989

BALANCE SHEET DECEMBER 31, 1988
(with comparative figures for March 31, 1988)
(in thousands of dollars)

ASSETS	December 31 1988	March 31 1988
Current assets		
Cash	1,687	1
Accounts receivable (net of allowance of $392; March 31, 1988— $333)	6,137	4,431
Inventories (Note 4)	11,061	11,774
Prepaid expenses	387	638
	19,272	16,844
Plant and property (Note 5)	1,716	1,622
	20,988	18,466

LIABILITIES AND SHAREHOLDER'S EQUITY	December 31 1988	March 31 1988
Current liabilities		
Accounts payable and accrued liabilities	7,259	9,468
Deferred revenue	1,809	1,677
Demand loan (Note 6)	400	
Employee termination benefits	1,870	1,690
Total liabilities	11,338	12,835
SHAREHOLDER'S EQUITY		
Capital stock (Note 1)	9,588	
Retained earnings, per accompanying statement	62	5,631
	9,650	5,631
	20,988	18,466

See accompanying notes to financial statements.

On behalf of the Board:

W. R. TESCHKE
Director

H.M.F. WARLAND
Director

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX 2—*Continued*

THERATRONICS INTERNATIONAL LIMITED—*Continued*

STATEMENT OF INCOME
NINE MONTH PERIOD ENDED DECEMBER 31, 1988
(with comparative figures for the nine month period ended December 31, 1987 and the year ended March 31, 1988)
(in thousands of dollars)

	December 31 1988	December 31 1987 (Unaudited)	March 31 1988 (Unaudited)
Sales	32,819	29,663	41,441
Cost of goods sold	23,043	19,563	27,971
Operating margin	9,776	10,100	13,470
Operating expenses			
Marketing	3,891	4,126	5,546
Administration	2,748	3,073	4,208
Product support and development	1,926	1,390	1,899
	8,565	8,589	11,653
Operating income	1,211	1,511	1,817
Privatization costs	301		
Accelerator products support (Note 9)	484	5,281	8,611
Net income (loss) (Note 7)	426	(3,770)	(6,794)

See accompanying notes to financial statements.

STATEMENT OF RETAINED EARNINGS
NINE MONTH PERIOD ENDED DECEMBER 31, 1988
(with comparative figures for the year ended March 31, 1988)
(in thousands of dollars)

	December 31 1988	March 31 1988 (Unaudited)
AECL investment, beginning of period	5,631	15,487
Net income (loss)	426	(6,794)
AECL investment during the period	3,593	(3,062)
Capitalization, July 1, 1988 (Note 1)	(9,588)	
Retained earnings, end of period	62	5,631

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
NINE MONTH PERIOD ENDED DECEMBER 31, 1988
(with comparative information for the year ended March 31, 1988)
(in thousands of dollars)

	December 31 1988	March 31 1988 (Unaudited)
Operating activities		
Operating income	1,211	1,817
Accelerator products support	(484)	(8,611)
Privatization costs	(301)	
Depreciation and amortization	336	461
Gain on disposal of assets	(45)	
	717	(6,333)
(Increase) decrease in operating working capital	(2,639)	7,126
Cash (used by) provided by operating activities	(1,922)	793
Investing activities		
Acquisition of plant and property	(527)	(733)
Proceeds from the disposal of plant and property	142	
Cash used in investing activities	(385)	(733)
Financing activities		
Proceeds from demand loan	400	
Repayment of loan		(60)
Cash provided from (applied to) financing activities	400	(60)
(Decrease) in cash before AECL investment during the period	(1,907)	
AECL investment during the period	3,593	
Increase in cash during the period	1,686	
Cash, beginning of period	1	1
Cash, end of period	1,687	1

See accompanying notes to financial statements.

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Continued*

APPENDIX 2—*Continued*

THERATRONICS INTERNATIONAL LIMITED—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988
(All dollar amounts are stated in thousands)

Theratronics International Limited is incorporated under the Canada Business Corporations Act and is subject to the Financial Administration Act and the Government Companies Operations Act. The primary business of Theratronics is the manufacture, sales and service of radiotherapy and related equipment and services to hospitals and medical institutions around the world.

1. Privatization

On March 4, 1988, the Minister of State for Privatization announced the Government's intention to sell the Medical Products Division ("MPD"), a division of Atomic Energy of Canada Limited ("AECL") to the private sector. As part of this process Theratronics International Limited (the "Company") was incorporated as a wholly-owned subsidiary of AECL and the assets and liabilities of MPD were transferred to the Company in exchange for 10,000 common shares. Since the transaction occurred between companies under common control, a value of $9,588 was assigned to capital stock for accounting purposes representing the net book value of MPD assets and liabilities acquired. The authorized capital stock of the Company is comprised of an unlimited number of no par value common shares. The effective date of these transactions was July 1, 1988. All of the outstanding common shares were transferred to Canada Development Investment Corporation ("CDIC") effective September 30, 1988.

No assessment of the potential impact of privatization has been made or reflected in these financial statements.

2. Basis of preparation

These financial statements present the assets and liabilities as at the Company's period-end of December 31, 1988 and the combined revenues and expenses of the Company for the six month period ended December 31, 1988 and its predecessor, MPD, for the three month period ended June 30, 1988.

3. Accounting policies

Significant accounting policies are summarized below.

Plant and property

Plant and property is recorded at cost and depreciated on a straight-line basis over the estimated useful life of the underlying assets, as follows:

Site services	15 years
Building	25 to 30 years
Machinery and equipment	3 to 10 years

Inventories

Work-in-process and finished goods inventories are valued at the lower of cost and estimated net realizable value. Raw material, service inventory, and accelerator product parts are valued at the lower of cost and replacement cost. Cost is determined on a first-in first-out basis and includes material, labour and manufacturing overhead where applicable.

Foreign currency translation

Transactions denominated in a foreign currency are translated into Canadian dollars at exchange rates in effect on the transaction date. Foreign currency monetary assets and liabilities are translated at rates in effect at the balance sheet date. Exchange gains and losses arising from these translations are included in the statement of income.

Pension plan

Employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. The Company's contributions to the plan are limited to matching the employees' contributions on account of current service. These payments are charged to income on a current basis and represent the total pension obligations of the Company.

Employee termination benefits

Employees are entitled to specific termination benefits defined under collective agreements and conditions of employment. These benefits are recorded on the basis of actuarial assumptions as to future events.

Warranty provision

A provision is recorded for estimated warranty costs at the time of product sale.

Revenue recognition

Revenue from the sale of radiotherapy units and related equipment is recognized upon shipment. Revenue from field services is recognized at the time services are rendered. Revenue from service contracts is recognized on a straight-line basis over the term of the contract.

4. Inventories

	December 31 1988	March 31 1988
Service		
inventory	5,050	5,362
Manufacturing		
Raw materials	3,325	3,451
Work-in-process	1,780	2,416
Finished goods	906	545
	11,061	11,774

The radiotherapy industry demands timely response to customer needs for product and warranty service. Accordingly, the service inventory is maintained by the Company to provide an adequate service level to worldwide customers based on the Company's estimate of usage and the customers' anticipated level of service requirements.

5. Plant and property

	Cost	Accumulated depreciation	Net December 31 1988	Net March 31 1988
Land	69		69	141
Site				
services	314	146	168	182
Buildings	3,149	3,065	84	
Machinery and				
equipment	4,417	3,022	1,395	1,299
	7,949	6,233	1,716	1,622

CANADA DEVELOPMENT INVESTMENT CORPORATION—*Concluded*

APPENDIX 2—*Concluded*

THERATRONICS INTERNATIONAL LIMITED—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988—*Concluded*

6. Related party transactions

The demand loan is due to Cartierville Financial Corporation Inc. and bears an interest rate equal to the prime rate of a Canadian chartered bank.

AECL and Nordion International Inc. ("Nordion"), a corporation controlled by CDIC, provide the Company with services and cobalt sources. Total purchases of goods and services in the period totalled $2,737 (December 31, 1987—$3,541; March 31, 1988—$4,927). At December 31, 1988, $515 of these purchases were included in Accounts Payable.

The Company provides Nordion with manufactured products. Total sales of goods in the period totalled $4,495 (December 31, 1987—$4,599; March 31, 1988—$7,850). At December 31, 1988, $117 of these sales were included in Accounts Receivable.

Accelerator product support provided by the Company on behalf of AECL during the period totalled $1,106. As at December 31, 1988, $683 of this revenue was included in Accounts Receivable.

7. Income taxes

Initially the Company, as a division and then a subsidiary of AECL, was exempt from income taxes. However, as a wholly-owned subsidiary of CDIC, this exemption does not apply and the Company became subject to federal income taxes effective September 30, 1988. As a wholly-owned subsidiary of a Federal Crown Corporation, the Company is not subject to provincial income taxes.

The Company's expected income tax rate is the net Federal statutory rate of 28% less the applicable manufacturing and processing deduction of 2%. The 1988 effective tax rate is zero due to the non-taxable income earned by the Company in the period April 1, 1988 to September 30, 1988 and the utilization of the currently deductible portion of the permanent differences related to the assets of the Company at the date it became subject to income taxes.

The Company has loss carryforwards of approximately $1,100, the benefits of which have not been recorded in the accounts.

8. Commitments and contractual obligations

Minimum lease payments in accordance with lease commitments are as follows:

	$
1989	286
1990	243
1991	167
	696

The Company has a commitment to purchase cobalt 60 from AECL produced at its Chalk River nuclear laboratory to the year 2008.

9. Accelerator products support

In 1985, the Company, as a division of AECL, announced the intention to discontinue the manufacture and sale of accelerator products. The Company entered into an agreement with AECL effective June 30, 1988 until the earlier of the privatization of the Company and March 31, 1990, or as limited by the Asset Purchase Agreement dated September 30, 1988 between AECL and the Company, with regard to contractual warranties and service obligations arising from accelerator products.

Accelerator products include the Therac 6, the Therac 20 and the Therac 25. Product support to the existing users of the accelerator products will, where feasible, be done by the Company on a commercial basis; all activities not covered under commercial arrangements are recoverable from AECL. These transactions are disclosed in the financial statements under the caption "accelerator products support".

Service, service contracts and spare parts for the accelerator products will continue as part of the ongoing service business of the Company.

10. Sales agents' remuneration

During the nine month period ended December 31, 1988 the Company paid sales commissions totalling $657 to the following agents: Siemens A.G., Germany; Kostas Kanayannissa, Greece; Costa Rica Dental and Medical, Costa Rica; Medtel Pty. Limited, Australia; Novelact (Medical) Limited, Hong Kong; Equipo Pare Hospititales SA, Mexico; G.E. USA Electromedicia SA, Spain; The Paramedic Corporation, The Philippines; General Machinery, Chile; IGE India, India; KAEF Company Ltd., Iran; Kamsol Suksol Electric Co., Thailand; Tecnologia EM Radiocoa Ltda., Brazil; Sabbagh Wholesale Druggist, Jordan; Gemed Sistemas Medicos, Venezuela; Tareq Company, Kuwait; Tamathe SRL, Argentina; Springport Taiwan Ltd., Taiwan; Zelin PTV Limited, Pakistan; Promed Internacional SA, Panama; Korea General Trading Co., Korea; Watsons & Sons (E.M.) Limited, Nigeria; Radiotherapy-Medical Supply, Australia; M.L. Sethi, India.

11. Comparative figures

Certain comparative figures have been reclassified to conform with the current period's presentation.

SUMMARY PAGE

CANADA HARBOUR PLACE CORPORATION

MANDATE

Administer properties at Canada Place in Vancouver, originally constructed as the Canadian pavilion at Expo 86.

BACKGROUND

The Corporation was incorporated in 1982 to design, construct and manage a facility called Canada Place, built by the federal government as its contribution to Expo 86. The facility includes a cruise ship terminal, a hotel, an office complex, a convention centre (formerly the location of the Canadian pavilion at Expo 86) leased to the Province of British Columbia, a parking lot, and various commercial and public use areas. The government is reviewing the continued responsibilities of the corporation.

CORPORATION DATA

HEAD OFFICE	Suite 690 999 Canada Place Vancouver, British Columbia V6C 3C1
STATUS	— Schedule III, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Benoît Bouchard, P.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1982; by letters patent (no. 132316) under the *Canada Business Corporations Act.*
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Thomas G. Rust
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) Financial year ending March 31.

	1989	1988	1987	1986
At the end of the period				
Total Assets	69.3	71.0*	86.0*	145.2
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	68.9	70.6	80.3	132.7
Cash from Canada in the period				
— budgetary	nil	2.0	13.6	55.6
— non-budgetary	nil	nil	nil	nil

* Amounts relating to construction of the Canada Pavilion at Expo 86 which were capitalized previously were expensed as: in 1986-87, $43.7 million and in 1987-88, $9.4 million.

CANADA HARBOUR PLACE CORPORATION

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have examined the balance sheet of Canada Harbour Place Corporation as at March 31, 1989 and the statements of operations, equity of Canada and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, and the articles and by-laws of the Corporation.

Raymond M. Dubois, F.C.A.
for the Auditor General of Canada

Ottawa, Canada
May 19, 1989

BALANCE SHEET AS AT MARCH 31, 1989
(in thousands of dollars)

ASSETS	1989	1988	LIABILITIES AND EQUITY OF CANADA	1989	1988
Cash and short-term investments	838	427	Accounts payable	392	387
Accounts receivable	455	750	Equity of Canada	68,947	70,660
Fixed assets (Note 3)	68,046	69,870			
	69,339	71,047		69,339	71,047

Approved by the Board:

T. RUST
Director

J. H. GREEN
Director

CANADA HARBOUR PLACE CORPORATION—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1989
(in thousands of dollars)

	1989	1988
Canada Place		
Revenues		
Operating/utilities recoveries (Note 4)	3,297	2,982
Lease revenues		
Parking	1,257	1,103
Theatre	343	184
Restaurant	87	73
Tenant administration fee	135	111
Marketing	93	
Interest	57	327
Miscellaneous	16	10
	5,285	4,790
Expenses		
Operations		
Utilities	1,398	1,373
Common facilities	1,042	652
Central plant	441	343
Tenants work requests	284	227
Insurance	220	253
Shared areas	160	211
	3,545	3,059
Administration and public relations (Note 5)	1,528	1,365
Depreciation	1,958	1,952
	7,031	6,376
Net operating expenses	1,746	1,586
Canada Pavilion revenues	33	315
Net expenses before extraordinary items	1,713	1,271
Extraordinary items (Note 6)		10,369
Net cost of operations	1,713	11,640

STATEMENT OF EQUITY OF CANADA
FOR THE YEAR ENDED MARCH 31, 1989
(in thousands of dollars)

	1989	1988
Capital stock		
Contributed capital		
Balance at beginning of year	70,660	80,300
Parliamentary appropriations received during the year		2,000
	70,660	82,300
Net cost of operations	1,713	11,640
Balance at end of year	68,947	70,660

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1989
(in thousands of dollars)

	1989	1988
Cash provided by (used for) operations		
Net cost of operations	(1,713)	(11,640)
Items not requiring cash		
Depreciation	1,958	1,952
Transfer of access roads to City of Vancouver		9,369
Changes in other components of working capital	300	(3,096)
	545	(3,415)
Cash provided by financing activities		
Parliamentary appropriations from Canada		2,000
Cash used for investing activities		
Additions to fixed assets	(134)	(7,139)
Increase (decrease) in cash during the year	411	(8,554)
Cash and short-term investments		
Beginning of year	427	8,981
End of year	838	427

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989

1. Authority and objectives

Canada Harbour Place Corporation was incorporated in 1982 under the Canada Business Corporations Act. The Corporation is an agent Crown Corporation and is included in Part I of Schedule III to the Financial Administration Act. The only three shares issued are all held in right of Canada by the Minister of Transport.

The objectives of the Corporation are to act as a developer and acquire, administer and dispose of land, and manage real property for the Government of Canada in Vancouver, B.C. For this purpose it designed and constructed a facility called Canada Place which includes a cruise ship terminal, the Trade and Convention Centre, which was formerly the Canada Pavilion at Expo 86, various commercial and public facilities, a parking lot and infrastructure for a hotel.

In accordance with a lease agreement with the Province of British Columbia, the Corporation transferred the administration and maintenance of the Trade and Convention Centre in Canada Place including prefunction areas, meeting rooms and retail space, for a term of 20 years with renewal options for three successive similar terms.

Pursuant to Treasury Board Minute TB81063 (March 23, 1989) the Minister is to make a recommendation to the Governor in Council on the continued responsibilities of the Corporation no later than June 30, 1989.

CANADA HARBOUR PLACE CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989—*Concluded*

2. Significant accounting policies

These financial statements have been prepared by management in accordance with generally accepted accounting principles. The more significant accounting policies of the Corporation are as follows:

Fixed assets and depreciation

All expenditures, including those for acquisition, design, construction and administration for the permanent structures at Canada Place, were capitalized at the time the facility was fully developed.

Depreciation is calculated on a straight-line basis based on the estimated useful lives of the assets. The building is depreciated over 40 years, while furniture, fixtures and equipment are depreciated over 20 years.

Income taxes

The Corporation is exempt from any liability for income taxes.

Retirement plan

The Corporation has agreed to make annual payments for long term employees to retirement plans of their choice. These benefits, which are recognized annually, range from 5% to 10% of the annual salary for each of these employees.

Operations revenues and expenses

Operations revenues and expenses relate to the management of Canada Place including the leasing of these facilities to various tenants. Central plant and utilities include electricity, natural gas, oil, labour and supplies used to supply power, water, air conditioning and heat for the facility. Other operations expenses include salaries, insurance, security, and other items which are recoverable from the tenants.

3. Fixed assets

	1989			1988
	Cost	Accumulated depreciation	Net	Net
	(in thousands of dollars)			
Building	65,600	3,279	62,321	63,941
Furniture, fixtures and equipment	6,355	630	5,725	5,929
	71,955	3,909	68,046	69,870

Title to that part of the bed of Vancouver harbour on which the facility is located was transferred to the Corporation from Vancouver Port Corporation for one dollar and has been so recorded in site purchase costs.

4. Operating / utilities recoveries

Operating cost recoveries include amounts recovered from the Corporation's tenants for operating expenses, central plant and utilities. During the year these costs exceeded the associated recoveries by $248,000 (1988—$77,000). This is caused by the Corporation incurring expenses in areas for which it is solely responsible, and cannot charge to its tenants under the various leases and agreements.

5. Administration and public relations expenses

	1989	1988
	(in thousands of dollars)	
Advertising and promotion	650	609
Salaries	285	255
Imax projection system lease	185	160
Office rental	121	82
Legal and professional	108	108
Promenade shops	55	31
Repair and maintenance	49	37
Travel	39	35
Communications	28	37
Miscellaneous	8	11
	1,528	1,365

6. Extraordinary items

(a) Transfer of access roads to the City of Vancouver at a previously capitalized cost of $9.4 million.

(b) The agreement with the Province of British Columbia on the administration and maintenance of the Trade and Convention Centre referred to in Note 1 included a $1 million payment comprising cash and equipment.

7. Lease commitments

The Corporation has entered into a 20 year lease agreement with effect from 1987 for the Imax projection system with a minimum total payment of $3 million. The minimum annual lease payment for the years 1989/90 to 1993/94 will be $186,000. The agreement provides for annual escalation at the rate of the Consumer Price Index.

The Corporation has a lease agreement for office accommodation aggregating $113,900 for the period April 1, 1989 to September 30, 1990. The agreement also calls for pro-rata share of operating costs estimated at $48,500 for the year ending March 31, 1990.

8. Contingencies

In the normal course of operations, the Corporation is subject to legal claims, the effect of which cannot be determined until they are settled. During 1988, a group of tenants and former tenants named the Corporation, the B.C. Enterprise Corporation, the B.C. Pavilion Corporation and a consultant as defendants in a lawsuit. The total amount claimed approximated $800,000. No liability has been admitted and negotiations are continuing. No provision for possible settlement is included in these financial statements. Should costs arise as a result of this action they would be expensed in the year when the costs are incurred.

9. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with departments, agencies and Crown corporations in the normal course of business.

SUMMARY PAGE

CANADA LANDS COMPANY LIMITED

MANDATE

The Canada Lands Company Limited has the mandate to hold certain leases for two propertier in London, England and two properties on Indian reserves in Canada. It is also the shareholder in three subsidiary corporations.

BACKGROUND

Formerly the Public Works Land Company Limited, the corporation no longer has financial activities. It has three subsidiaries, Canada Lands Company (Mirabel) Limited, Canada Lands Company (Le Vieux-Port de Montréal) Limited and Canada Lands Company (Vieux-Port de Québec) Inc.

CORPORATION DATA

HEAD OFFICE	Sir Charles Tupper Building Confederation Heights Riverside Drive Ottawa, Ontario K1A 0M2
STATUS	— Schedule III, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Elmer Mackay, P.C., M.P.
DEPARTMENT	Public Works
YEAR AND MEANS OF INCORPORATION	1956; by letters patent; reorganized under the *Canada Corporations Act,* September 19, 1977. Certificate of Continuance under the *Canada Business Corporations Act* July 7, 1981.
CHIEF EXECUTIVE OFFICER	Robert Giroux
AUDITOR	The Auditor General of Canada

FINANCIAL INFORMATION.

The corporation's financial year ends March 31. No value is assigned in its accounts to any of its assets; the accounts of its subsidiaries are reported separately and are not consolidated with those of this corporation since it is not likely to benefit from any increase in the equity of the subsidiaries.

CANADA LANDS COMPANY LIMITED

AUDITOR'S REPORT

TO THE MINISTER OF PUBLIC WORKS

I have examined, in accordance with generally accepted auditing standards, the balance sheet of Canada Lands Company Limited as at March 31, 1989. In my opinion, it presents fairly the financial position of the corporation at that date in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the corporation that have come to my notice during my examination of the balance sheet have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the articles and by-laws of the corporation.

Raymond Dubois, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 19, 1989

BALANCE SHEET AS AT MARCH 31, 1989

ASSETS	1989	1988	SHAREHOLDER'S EQUITY	1989	1988
	$	$		$	$
Investments (Notes 2(a), (b) and (c))			Capital stock (Note 2(d))		

Approved by the Board:

R.J. GIROUX
President

CANADA LANDS COMPANY LIMITED—*Concluded*

NOTES TO FINANCIAL STATEMENT
MARCH 31, 1989

1. Authority and activities

The Canada Lands Company Limited, an agent corporation, originally named Public Works Lands Company Limited, was incorporated under the Companies Act in 1956. It was added to Schedule C to the Financial Administration Act in 1979 and listed as a parent Crown corporation in 1984 in Part I of Schedule III to the Financial Administration Act.

The corporation has, by virtue of its letters patent of incorporation, the power to acquire, purchase, lease, hold, improve, manage, exchange, sell, turn to account or otherwise deal in or dispose of real or personal property or any interest therein. However, it has been used only to hold, in trust for other departments, certain leasehold interests in two properties in London, England, and two properties on Indian reserves in Canada. Funding for these leases is borne by other departments.

2. Significant accounting policies

(a) Investments in subsidiaries

The corporation wholly owns the following three subsidiary corporations:

Canada Lands Company (Mirabel) Limited
Canada Lands Company (Vieux-Port de Québec) Inc.
Canada Lands Company (Le Vieux-Port de Montréal) Limited.

The shares have been acquired in consideration of services rendered.

(b) Other investments

The corporation holds two out of the three issued shares of the Canada Museums Construction Corporation Inc. (CMCC). The third share is held by the Minister of Public Works. However, control of CMCC lies with the Minister of Public Works through a shareholders' agreement.

(c) Exclusion of subsidiaries from consolidation

The financial statements of the subsidiaries are excluded from consolidation because increases in their equity are not likely to accrue to the parent.

(d) Capital stock

The corporation is authorized to issue three shares which shall not be transferred to any person other than a person approved by the Minister of Public Works. The authorized shares have been issued in consideration of services rendered and are held in trust for Her Majesty in right of Canada by the Minister of Public Works.

3. Financial statement

The corporation has not been involved in any financial transactions. As a result, the balance sheet has nil balances and no other financial statement is presented.

4. Related party transactions

The Department of Public Works provides the corporation, without charge, with such executive and administrative functions as are required for its operations.

5. Information on certain wholly-owned subsidiaries

Canada Lands Company (Vieux-Port de Québec) Inc. ceased operations effective March 31, 1988. However, a decision has yet to be taken with respect to formal dissolution of the corporation pending the resolution of certain legal matters.

In March 1989, the Governor in Council and the Treasury Board authorized the Minister of Public Works to extend the mandate of the Canada Lands Company (Mirabel) Limited to March 31, 1991.

SUMMARY PAGE

CANADA LANDS COMPANY(MIRABEL) LIMITED

MANDATE

Administer, pending disposition, and sell on behalf of the Crown, properties peripheral to the airport called Montreal North. The authority now in place for this mandate extends to March 31, 1991.

BACKGROUND

Since July 1982, the corporation has managed the lands which the Crown had acquired for the international airport at Mirabel but which were not required for the functioning of the airport. A program for the sale of all those properties has been developed and is being implemented by the corporation. As of March 25, 1988 the operation of the corporation's affairs was assumed by the Department of Public Works.

CORPORATION DATA

HEAD OFFICE	9850 Belle Rivière P.O. Box 180 Mirabel, Quebec J0N 1S0
STATUS	— an agent of Her Majesty — A wholly-owned subsidiary of Canada Lands Company Limited; it has been directed by Order in Council (PC 1987-86) to report its affairs as if it is a parent Crown corporation.
APPROPRIATE MINISTER	The Honourable Elmer MacKay, P.C., M.P.
DEPARTMENT	Public Works
YEAR AND MEANS OF INCORPORATION	1981; by Canada Lands Company Limited, under the *Canada Business Corporations Act.*
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Jocelyne Ouellette
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) Financial year ending March 31.

	1989	**1988**	**1987**	**1986**
At the end of the period				
Total Assets	1.2	2.7	5.4	3.2
Obligations to the private sector	nil	nil	nil	1.2
Obligations to Canada	nil	nil	nil	1.3
Equity of Canada	nil	nil	nil	nil
Cash from Canada in the period				
— budgetary, net	5.4	5.3	6.8	2.4
— non-budgetary	nil	nil	nil	nil

CANADA LANDS COMPANY (MIRABEL) LIMITED

AUDITOR'S REPORT

TO THE MINISTER OF PUBLIC WORKS

I have examined the balance sheet of Canada Lands Company (Mirabel) Limited as at March 31, 1989 and the statements of transactions and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the charter and by-laws of the Corporation, as well as the agreement between the Corporation and Her Majesty in Right of Canada represented by the Minister of Public Works.

Raymond Dubois, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 6, 1989

BALANCE SHEET AS AT MARCH 31, 1989

ASSETS	1989	1988	LIABILITIES	1989	1988
	$	$		$	$
Cash	375,240	957,539	Accounts payable	290,978	879,331
Accounts receivable	146,389	373,472	Due to Department of Public Works	324,262	
Due from Minister of Public Works (Note 3)	517,399	1,167,436	Deposits on sales of properties awaiting approval	162,897	568,182
Mortgage loan receivable (Note 4)	135,600	152,550	Due to Receiver General for Canada (Note 5)	396,491	1,203,484
				1,174,628	2,650,997
			SHAREHOLDER'S EQUITY		
			Capital stock (Note 6)		
	1,174,628	2,650,997		1,174,628	2,650,997

Approved by the Board:

JOCELYNE OUELLETTE
Director

RENÉ FRÉCHET
Director

CANADA LANDS COMPANY (MIRABEL) LIMITED—*Continued*

STATEMENT OF TRANSACTIONS CARRIED OUT AS AGENT AND ON BEHALF OF THE MINISTER OF PUBLIC WORKS FOR THE YEAR ENDED MARCH 31, 1989

	1989	1988
	$	$
Expenditures		
Expenditures incurred for goods received or services rendered		
Operating		
Services provided by the Department of Public Works	801,859	
Professional services	225,539	570,629
Materials and maintenance contracts	62,197	262,833
Public utilities	57,358	106,550
Office supplies	39,809	60,046
Property appraisal	39,355	203,815
General	34,523	137,996
Establishment of cadastres	27,053	185,899
Hospitality and public relations	22,402	96,468
Rentals	21,252	101,077
Vehicles and related expenses	13,404	203,163
Wages, benefits and termination benefits		1,932,364
Communications and promotion		471,468
	1,344,751	4,332,308
Capital	14,072	12,753
	1,358,823	4,345,061
Agricultural investment acceleration program		
Contributions	2,256,937	1,853,353
Professional services and related expenses	104,357	600,141
	2,361,294	2,453,494
Grants related to the transfer of properties (Note 7)	500,000	
Total of expenditures	4,220,117	6,798,555
Proceeds from other than the direct use of fixed assets		
Interest	132,530	338,868
Net expenditures to be funded (Note 3)	4,087,587	6,459,687
Cumulative net expenditures since April 9, 1981	64,926,098	60,838,511
Proceeds from the direct use of fixed assets		
Sales of properties (after deducting leasehold improvements reimbursed to tenants)	5,339,247	23,114,573
Rentals	288,542	487,455
Other		89,771
Total to be remitted (Note 5)	5,627,789	23,691,799
Cumulative direct proceeds since April 9, 1981	68,284,512	62,656,723
Excess of direct proceeds over net expenditures		
For the year	1,540,202	17,232,112
Cumulative since April 9, 1981	3,358,414	1,818,212

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1989

	1989	1988
	$	$
Operating activities		
Transactions carried out as agent and on behalf of the Minister of Public Works		
Proceeds from the direct use of fixed assets	5,627,789	23,691,799
Proceeds from other than the direct use of fixed assets	132,530	338,868
Remittances to the Consolidated Revenue Fund	(6,434,782)	(24,105,913)
Agricultural investment acceleration program	(2,361,294)	(2,453,494)
Operating expenditures incurred for goods received or services rendered	(1,344,751)	(4,332,308)
Grants related to the transfer of properties	(500,000)	
	(4,880,508)	(6,861,048)
Decrease in accounts receivable	227,083	365,547
Decrease in accounts payable	(588,353)	(330,946)
Due to Department of Public Works	324,262	
Decrease in deposits on sales of properties awaiting approval	(405,285)	(1,603,890)
	(5,322,801)	(8,430,337)
Investing activities		
Decrease (increase) in mortgage loan receivable	16,950	(152,550)
Capital expenditures carried out as agent and on behalf of the Minister of Public Works	(14,072)	(12,753)
	2,878	(165,303)
Financing activities		
Parliamentary appropriation	4,737,624	5,031,890
Decrease in cash during the year	(582,299)	(3,563,750)
Cash at beginning of the year	957,539	4,521,289
Cash at end of the year	375,240	957,539

CANADA LANDS COMPANY (MIRABEL) LIMITED—*Continued*

NOTES TO FINANCIAL STATEMENTS
AS AT MARCH 31, 1989

1. Authority and activities

Canada Lands Company (Mirabel) Limited was incorporated on April 9, 1981 under the Canada Business Corporations Act and is a wholly-owned subsidiary of Canada Lands Company Limited, a Crown corporation named in Part I of Schedule III to the Financial Administration Act.

Effective July 1, 1981, pursuant to an agreement between the Corporation and Her Majesty in Right of Canada represented by the Minister of Public Works, the Corporation is responsible for administering and developing a part of the peripheral lands of Mirabel in order to ensure a normal living environment for residents of the lands while safeguarding the operations of the Mirabel International Airport. The Corporation fulfills this responsibility in the name and for the account of the Minister of Public Works who continues to hold title to the fixed assets for the benefit of Her Majesty. On May 21, 1982, the Privy Council authorized the sale of certain properties; on February 23, 1984, it authorized the disposition of the remaining properties within the territory under its responsibility. On September 19, 1984, a moratorium suspended the sales program; the Privy Council authorized on June 11, 1985 an agricultural investment acceleration program and the resumption of sales under revised terms and conditions, approved by the Treasury Board.

Since March 25, 1988, under the terms of specific service agreements, the Department of Public Works provides the Corporation with personnel and also professional and maintenance services.

2. Significant accounting policies

(a) Financial statements presentation

The statements present transactions carried out by the Corporation as agent and on behalf of the Minister of Public Works. All expenditures, net of proceeds from other than the direct use of fixed assets, are reimbursable to the Corporation. Proceeds from the direct use of fixed assets, principally rentals and sales of properties, are payable to the Receiver General for Canada.

Differences between parliamentary appropriations received and net reimbursable expenditures are recorded by the Corporation as due from or due to the Minister of Public Works.

(b) Expenditures of a capital nature

Expenditures of a capital nature represent costs which significantly increase the value or extend the useful lives of properties administered by the Corporation.

(c) Contributions

Financial assistance under the agricultural investment acceleration program is recorded in the expenditures of the year in which the eligible work is carried out.

(d) Sales of properties

Sales of properties are recognized when title passes to buyers and the Corporation is entitled to receive the amount of the proceeds.

3. Due from Minister of Public Works

	1989	1988
	$	$
Balance at beginning of the year	1,167,436	(260,361)
Net expenditures	4,087,587	6,459,687
	5,255,023	6,199,326
Less:		
Funds drawn from Department of Public Works for Canada Lands Company (Mirabel) Limited		
Vote 35 in 1988	(40,624)	(5,292,251)
Vote 25 in 1989	(4,697,000)	
Reimbursement of the unused portion of parliamentary appropriations drawn in previous years		260,361
	(4,737,624)	(5,031,890)
Balance at end of the year	517,399	1,167,436

4. Mortgage loan receivable

The Corporation granted a mortgage loan of $152,550, bearing no interest, to a municipality on the sale of a property. The loan is reimbursable on the basis of nine annual instalments of $16,950 starting from April 1, 1988.

5. Due to Receiver General for Canada

	1989	1988
	$	$
Balance at beginning of the year	1,203,484	1,617,598
Direct proceeds	5,627,789	23,691,799
	6,831,273	25,309,397
Remittances to the Consolidated Revenue Fund	6,434,782	24,105,913
Balance at end of the year	396,491	1,203,484

6. Capital stock

The Corporation is authorized to issue a single share, to be held in trust for Her Majesty in Right of Canada, which may not be transferred without the consent of the Governor in Council. The authorized share has been issued in consideration of services rendered.

7. Grants related to the transfer of properties

On July 23, 1986, the Governor in Council transferred to the Province of Quebec, at no cost and under certain conditions, the administration and control of a property for the purpose of maintaining an educational activity centre. This transfer is conditional to the payment by the Corporation to the Government of the Province of Quebec of operating grants of $250,000 in 1986-87 and of $250,000 in 1988-89.

On June 23, 1988, the Governor in Council transferred a property to a teaching establishment for the amount of $1 and under certain conditions. This property must be used solely for educational purposes at the collegiate level. Following the transfer of this property, the Corporation paid in 1988-89 a renovation grant of $150,000 and an operating grant of $100,000.

CANADA LANDS COMPANY (MIRABEL) LIMITED—*Concluded*

NOTES TO FINANCIAL STATEMENTS
AS AT MARCH 31, 1989—*Concluded*

8. Commitments

Under the agricultural investment acceleration program, the Corporation has agreed to reimburse claimants with a portion of the cost of eligible work when carried out, which amounts to approximately $250,000 as at March 31, 1989 ($1,000,000 as at March 31, 1988).

9. Contingency

Legal action has been instituted against the Corporation, the Attorney General of Canada, the Minister of Transport and the Minister of Public Works by some of the original Mirabel property owners who are asking to have the 1969 expropriation declared invalid. In this context, a number of lessees have ceased to remit their rent to the Corporation. On March 27, 1985, a protocol of understanding was entered into with representatives of the original property owners whereby the parties undertake to discontinue all litigation actions between them. This protocol was approved in principle by the Privy Council on June 11, 1985.

SUMMARY PAGE

CANADA LANDS COMPANY(LE VIEUX-PORT DE MONTRÉAL) LIMITED

MANDATE

Promote the development of the lands of Le Vieux-Port de Montréal and develop them and administer, manage and maintain Crown property there.

BACKGROUND

Since February 1982, the corporation has managed the Crown lands at Le Vieux-Port, including lands transferred to the Crown in 1983 from Canada Ports Corporation. Planning and consultation with the public and with the other levels of government have resulted in plans for major developments on the lands. Those plans remain a significant issue for the various governments.

CORPORATION DATA

HEAD OFFICE	333 rue de la Commune ouest Montreal, Quebec H2Y 2E2
STATUS	— an agent of Her Majesty — A wholly-owned subsidiary of Canada Lands Company Limited; it has been directed by Order in Council (PC 1987-86) to report its affairs as if it were a parent Crown corporation.
APPROPRIATE MINISTER	The Honourable Elmer MacKay, P.C., M.P.
DEPARTMENT	Public Works
YEAR AND MEANS OF INCORPORATION	1981; by Canada Lands Company Limited, under the *Canada Business Corporations Act.*
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Roger Beaulieu
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) Financial year ending March 31.

	1989	1988	1987	1986
At the end of the period				
Total Assets	1.8	0.9	0.6	1.9
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	0.1	nil	nil
Equity of Canada	nil	nil	nil	nil
Cash from Canada in the period				
— budgetary	7.3	3.4	3.3	5.9
— non-budgetary	nil	nil	nil	nil

CANADA LANDS COMPANY (LE VIEUX-PORT DE MONTRÉAL) LIMITED

AUDITOR'S REPORT

TO THE MINISTER OF PUBLIC WORKS

I have examined the balance sheet of Canada Lands Company (Le Vieux-Port de Montréal) Limited as at March 31, 1989 and the statements of transactions and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the charter and by-laws of the Corporation, as well as the agreement between the Corporation and Her Majesty in Right of Canada represented by the Minister of Public Works.

Raymond Dubois, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 12, 1989

BALANCE SHEET AS AT MARCH 31, 1989

ASSETS	1989	1988	LIABILITIES	1989	1988
	$	$		$	$
Cash and temporary investments	1,715,011	269,802	Accounts payable	1,494,362	920,650
Accounts receivable	120,396	110,411	Due to Receiver General for Canada (Note 4)	29,867	21,182
Due from Minister of Public Works (Note 3)		217,849	Due to Minister of Public Works (Note 3)	315,103	
Prepaid expenses	3,925	343,770		1,839,332	941,832
			SHAREHOLDER'S EQUITY		
			Capital stock (Note 5)		
	1,839,332	941,832		1,839,332	941,832

Approved by the Board:

ROGER L. BEAULIEU
Director

C. STEPHEN CHEASLEY
Director

CANADA LANDS COMPANY (LE VIEUX-PORT DE MONTRÉAL) LIMITED—*Continued*

STATEMENT OF TRANSACTIONS CARRIED OUT AS AGENT AND ON BEHALF OF THE MINISTER OF PUBLIC WORKS FOR THE YEAR ENDED MARCH 31, 1989

	1989	1988
	$	$
Expenditures		
Operating		
Maintenance of property	1,551,994	1,197,119
Permanent personnel	1,188,367	872,390
Animation programs	812,626	517,557
Administration	484,498	401,779
Professional services	256,572	219,499
Communications	88,604	55,623
	4,382,661	3,263,967
Capital	4,249,750	1,400,524
Total expenditures	8,632,411	4,664,491
Proceeds from other than the direct use of fixed assets		
Income produced by animation programs		
Programs carried out by the Corporation	762,953	
Parking	614,698	286,322
Concessions	351,650	503,445
Other	22,526	5,815
	1,751,827	795,582
Interest, related principally to the receipt of parliamentary appropriations in advance of disbursements	111,611	35,294
	1,863,438	830,876
Net expenditures to be funded (Note 3)	6,768,973	3,833,615
Cumulative net expenditures since November 26, 1981	71,184,222	64,415,249
Proceeds from the direct use of fixed assets		
Income to be remitted (Note 4)		
Parking	265,736	126,196
Rentals	89,660	107,842
Mooring and anchoring	23,993	50,569
	379,389	284,607
Cumulative direct proceeds since November 26, 1981	1,276,234	896,845
Excess of net expenditures over direct proceeds		
For the year	6,389,584	3,549,008
Cumulative since November 26, 1981	69,907,988	63,518,404

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1989

	1989	1988
	$	$
Operating activities		
Transactions carried out as agent and on behalf of the Minister of Public Works		
Operating expenditures	(4,382,661)	(3,263,967)
Proceeds from other than the direct use of fixed assets	1,863,438	830,876
Proceeds from the direct use of fixed assets	379,389	284,607
Remittances to the Consolidated Revenue Fund	(370,704)	(138,677)
	(2,510,538)	(2,287,161)
Increase in accounts receivable	(9,985)	(8,670)
Decrease (increase) in prepaid expenses	339,845	(327,969)
Increase in accounts payable	573,712	511,738
	(1,606,966)	(2,112,062)
Investing activities		
Capital expenditures carried out as agent and on behalf of the Minister of Public Works	(4,249,750)	(1,400,524)
Financing activities		
Parliamentary appropriation	7,301,925	3,400,000
Cash and temporary investments		
Increase (decrease) for the year	1,445,209	(112,586)
Balance at beginning of the year	269,802	382,388
Balance at end of the year	1,715,011	269,802

NOTES TO FINANCIAL STATEMENTS AS AT MARCH 31, 1989

1. Authority and activities

Canada Lands Company (Le Vieux-Port de Montréal) Limited was incorporated on November 26, 1981 under the Canada Business Corporations Act and is a wholly-owned subsidiary of Canada Lands Company Limited, a Crown corporation named in Part I of Schedule III to the Financial Administration Act.

Effective February 1, 1982, pursuant to an agreement between the Corporation and Her Majesty in Right of Canada represented by the Minister of Public Works, the Corporation is responsible for developing and for promoting the development of the lands of Le Vieux-Port de Montréal, and for administering, managing, and maintaining the property of Her Majesty located therein. The Corporation fulfills this responsibility in the name and for the account of the Minister of Public Works who continues to hold title to the fixed assets for the benefit of Her Majesty.

CANADA LANDS COMPANY (LE VIEUX-PORT DE MONTRÉAL) LIMITED—*Concluded*

NOTES TO FINANCIAL STATEMENTS
AS AT MARCH 31, 1989—*Concluded*

2. Significant accounting policies

(a) Financial statement presentation

The statements present transactions carried out by the Corporation as agent and on behalf of the Minister of Public Works. All expenditures, net of proceeds from other than the direct use of fixed assets, are reimbursable to the Corporation. Proceeds from the direct use of fixed assets are payable to the Receiver General for Canada.

Differences between parliamentary appropriations received and net reimbursable expenditures are recorded by the Corporation as due from or due to the Minister of Public Works.

(b) Expenditures of a capital nature

Expenditures of a capital nature represent costs which significantly increase the value or extend the useful lives of properties administered by the Corporation. They also include costs of demolishing structures.

(c) Employee termination benefits

On termination of employment, employees of the Corporation are entitled to certain benefits provided for under the salary administration policy of the Corporation. The cost of these benefits is recorded in the year in which they are earned by the employees. The estimated liability resulting from this policy is included in accounts payable.

(d) Retirement savings plan

The Corporation has established a group retirement savings plan under which a single trust was established with a private sector organization in order to accumulate contributions to provide a retirement income for the employees through individually registered retirement savings plans. All contributions are paid by the employees, the Corporation acting solely as an agent without incurring any liability.

3. Due from (due to) Minister of Public Works

	1989	1988
	$	$
Balance at beginning of the year	217,849	(215,766)
Net expenditures	6,768,973	3,833,615
	6,986,822	3,617,849
Less:		
Funds drawn from Department of Public Works for Canada Lands Company (Le Vieux-Port de Montréal) Limited		
Vote 36 in 1988		(3,400,000)
Vote 30 in 1989	(7,301,925)	
Balance at end of the year	(315,103)	217,849

4. Due to Receiver General for Canada

	1989	1988
	$	$
Balance at beginning of the year	21,182	(124,748)
Direct proceeds	379,389	284,607
	400,571	159,859
Remittances to the Consolidated Revenue Fund	(370,704)	(138,677)
Balance at end of the year	29,867	21,182

5. Capital stock

The Corporation is authorized to issue a single share, to be held in trust for Her Majesty in Right of Canada, which may not be transferred without the consent of the Governor in Council. The authorized share has been issued in consideration of services rendered.

6. Commitments

As at March 31, 1989 the commitments for the leasing of equipment and construction contracts totalled $535,376 ($2,408,765 as at March 31, 1988).

SUMMARY PAGE

CANADA LANDS COMPANY(VIEUX-PORT DE QUÉBEC) INC..

MANDATE

Implement a general development plan for certain lands of the Vieux-Port de Québec; administer, manage, promote and operate those lands and their developments.

BACKGROUND

Since August 1, 1981, the corporation has developed and managed the Crown lands of the Vieux-Port; for two years, ending February 27, 1986, it held, managed and directed a further parcel of Vieux-Port land and the improvements on it. In 1987-88 its functions were transferred to the Department of Public Works and the corporation ended its operations on March 31, 1988. A decision to dissolve the corporation awaits resolution of certain legal matters.

CORPORATION DATA

HEAD OFFICE	112 Dalhousie Street P.O. Box 95, Station B Quebec City, Quebec G1K 7A1
STATUS	— an agent of Her Majesty — A wholly-owned subsidiary of Canada Lands Company Limited. It had been directed by Order in Council (PC 1987-86) to report its affairs as if it were a parent Crown corporation but this was rescinded (by PC 1988-562) on March 28, 1988.
APPROPRIATE MINISTER	The Honourable Elmer MacKay, P.C., M.P.
DEPARTMENT	Public Works
YEAR AND MEANS OF INCORPORATION	1981; by Canada Lands Company Limited, under the *Canada Business Corporations Act.*
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Robert Giroux
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) Financial year ending March 31.

	1989	1988	1987	1986
At the end of the period				
Total Assets	1.1	1.7	1.8	2.0
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	0.9	0.9	0.9	0.4
Equity of Canada	0.2	0.2	0.2	0.2
Cash from Canada in the period				
— budgetary	nil	5.1	5.0	5.5
— non-budgetary	nil	nil	nil	nil

CANADA LANDS COMPANY (VIEUX-PORT DE QUÉBEC) INC.

AUDITOR'S REPORT

TO THE MINISTER OF PUBLIC WORKS

I have examined the balance sheet of Canada Lands Company (Vieux-Port de Québec) inc. as at March 31, 1989. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, this balance sheet presents fairly the financial position of the Corporation as at March 31, 1989 in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the balance sheet have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the charter and by-laws of the Corporation as well as the agreement between the Corporation and Her Majesty in Right of Canada represented by the Minister of Public Works.

Raymond Dubois, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 19, 1989

BALANCE SHEET AS AT MARCH 31, 1989

ASSETS	1989	1988	LIABILITIES	1989	1988
	$	$		$	$
Cash and temporary investments	167,972	628,045	Accounts payable	7,585	631,868
Accounts receivable (Note 2)	548,742	694,441	Due to Receiver General for Canada (Note 4)	876,953	883,809
Due from Minister of Public Works (Note 3)	371,234	396,601		884,538	1,515,677
			SHAREHOLDER'S EQUITY		
			Capital stock (Note 5)		
			Contributed surplus	178,250	178,250
			Retained earnings	25,160	25,160
	1,087,948	1,719,087		1,087,948	1,719,087

Approved by the Board:

JEAN-GUY HÉBERT
Director

CANADA LANDS COMPANY (VIEUX-PORT DE QUÉBEC) INC.—*Concluded*

NOTES TO THE BALANCE SHEET
AS AT MARCH 31, 1989

1. Authority and activities

Canada Lands Company (Vieux-Port de Québec) inc. was incorporated on April 9, 1981 under the Canada Business Corporations Act and is a wholly-owned subsidiary of Canada Lands Company Limited, a Crown corporation named in Part I of Schedule III to the Financial Administration Act.

Effective August 1, 1981, pursuant to an agreement between the Corporation and Her Majesty in Right of Canada represented by the Minister of Public Works, the Corporation has been responsible for the implementation of a general development plan for the lands of the Vieux-Port de Québec under its jurisdiction and for administering, managing, promoting and operating such lands and their developments. The Corporation fulfilled this responsibility in the name and for the account of the Minister of Public Works who continues to hold title to the fixed assets for the benefit of Her Majesty.

On May 26, 1988, by order of the Governor General in Council, the Minister of Public Works was authorized to terminate the said agreement. Since April 1st, 1988, the management of the Corporation's affairs is assumed by the Department of Public Works.

From February 9, 1984 to February 27, 1986, the Corporation was responsible for its own account for the management, charge and direction of a parcel of land together with the improvements thereon which had been transferred to it, subject to certain limiting conditions, by order of the Governor General in Council on February 9, 1984. This property was retroceded on February 27, 1986.

2. Accounts receivable

The accounts receivable include the following amounts:

	$
Public services organization	466,430
Others	82,312
	548,742

The amount receivable from the public services organization is for specific work carried out by the Corporation during the year 1982-83. The related cost is recoverable upon the signing of a protocol by the Corporation, the Canada Ports Corporation and the organization. The protocol, not yet signed, provides for the transfer of certain privileges from the Corporation and the Canada Ports Corporation. The work is completed for all practical purposes. The Corporation has not yet decided to transfer the privileges requested by the organization. It is possible that the Corporation may not recover the related cost.

3. Due from Minister of Public Works

	$
Balance at beginning of the year	396,601
Adjustment to prior years' operating expenditures	(10,767)
Interest	(14,600)
Balance at end of the year	371,234

4. Due to Receiver General for Canada

	$
Balance at beginning of the year	883,809
Adjustment to prior years' rentals	(1,449)
	882,360
Remittances to the Consolidated Revenue Fund	(5,407)
Balance at end of the year	876,953

5. Capital stock

The Corporation is authorized to issue a single share, to be held in trust for Her Majesty in Right of Canada and which may not be transferred without the consent of the Governor in Council. The authorized share has been issued in consideration of services rendered.

6. Contingencies

The Corporation and the corporation Québec 1534-1984 signed a protocol of general understanding determining the rights and obligations of each party for the staging in 1984 of a festive event and for the use of the site and of the equipment under the jurisdiction of the Corporation. Under the terms of the agreement, the Corporation has not granted the right to use the totality of the site, reserving for itself some premises that it might rent for commercial purposes. Leases were signed but, because of poor attendance, several were modified, cancelled or abandoned. The Corporation has received claims arising from those leases and from other activities, for a total of approximately $2 million, and more may be received. The Department of Public Works assumes the settlement of these claims.

SUMMARY PAGE

CANADA MORTGAGE AND HOUSING CORPORATION

MANDATE

To promote the construction of new houses, the repair and modernization of existing houses and the improvement of housing and living conditions.

BACKGROUND

Established in 1946, the corporation acts as the government's agent in the provision of grants, contributions and subsidies for the advancement of housing and community development. It conducts research and provides policy advice to government; it administers the Mortgage Insurance Fund, the prime purpose of which is to ensure an adequate supply of mortgage funds for housing, and it lends to groups and individuals for housing purposes and invests in housing-related projects.

CORPORATION DATA

HEAD OFFICE	682 Montreal Road Ottawa, Ontario K1A 0P7
STATUS	— Schedule III, Part I — an agent of Her Majesty except when s. 14 of its Act applies.
APPROPRIATE MINISTER	The Honourable Alan Redway, P.C., M.P. Minister of State (Housing)
YEAR AND MEANS OF INCORPORATION	1946; by the *Central Mortgage and Housing Corporation Act* (R.S.C. 1985, c. C-7).
CHIEF EXECUTIVE OFFICER	George D. Anderson
CHAIRMAN	Robert E. Jarvis, Q.C.
AUDITOR	Deloitte Haskins & Sells

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1988	**1987**	**1986 (restated)**	**1985**
At the end of the year				
Total Assets	9,306	9,540	9,805	10,051
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	9,008	9,271	9,514	9,802
Equity of Canada	50	50	50	50
Cash from Canada in the year				
— budgetary	1,529	1,473	1,355	1,656
— non-budgetary, before repayments	269	270	222	293

CANADA MORTGAGE AND HOUSING CORPORATION

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Management of the Corporation is responsible for establishing and maintaining a system of books, records, internal controls and management practices to provide reasonable assurance that: reliable financial information is produced; the assets of the Corporation are safeguarded and controlled; the transactions of the Corporation are in accordance with the relevant legislation, regulations and by-laws of the Corporation; the resources of the Corporation are managed efficiently and economically and the operations of the Corporation are carried out effectively.

Management is also responsible for the integrity and objectivity of the financial statements. The accompanying financial statements of the Corporation as at December 31, 1988 were prepared by Management in accordance with the accounting policies, consistently applied, as described in the notes to the financial statements. The financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

The Board of Directors is responsible for ensuring that Management fulfils its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee which includes a majority of members who are not officers of the Corporation. The Committee meets from time to time with Management, internal audit staff and the independent external auditor to review the manner in which these groups are performing their responsibilities and to discuss auditing, internal controls and other relevant financial matters. The Audit Committee has reviewed the financial statements with the external auditor and has submitted its report to the Board of Directors. The Board of Directors has reviewed and approved the financial statements.

The financial statements have been examined by the auditor, Robert D. Hepburn, C.A. of the firm Deloitte Haskins & Sells and his reports offer an independent opinion on the financial statements to the Minister of State (Housing).

George D. Anderson
President and Chief Executive Officer

Gaylen A. Duncan
Senior Vice-President Corporate Resources

FINANCIAL STATEMENTS DECEMBER 31, 1988

Canada Mortgage and Housing Corporation was incorporated as a Crown Corporation by an Act of Parliament on January 1, 1946. Its activities are regulated by the National Housing Act, the Canada Mortgage and Housing Corporation Act and, in certain respects, the Financial Administration Act, and include:

Corporate Account

Financing housing and community improvement through the making of loans and investments under specific conditions at interest rates normally at market rates which are generally higher than the rates it pays on funds borrowed from the Government of Canada. Loans and Investments exist in all three planning elements: Market Housing, Social Housing and Housing Support with the major emphasis (approximately 70%) on Social Housing projects.

Minister's Account

Making certain payments or incurring expenses in the process of delivering housing programs on behalf of the Government of Canada. These payments and expenses include grants, contributions, subsidies, loan forgiveness, losses on real estate, losses under federal-provincial agreements, interest rate losses, research and development, and specified administrative costs. The funding for these activities is provided for in Main and Supplementary Estimates which are tabled in Parliament. Parliamentary approval is by way of the Appropriations Act together with Statutory Authorities which authorize the responsible Minister to reimburse the Corporation for the specified payments and expenses for the fiscal year concerned. Grants, contributions and subsidies are delivered within the three planning elements: Market Housing, Social Housing and Housing Support. In these endeavours 90% of the total activity relates to Social Housing initiatives.

Funds Administered

Administering certain Insurance and Guarantee Funds on behalf of the Government of Canada. The Mortgage Insurance Fund is the chief instrument for establishing a framework of confidence for mortgage lending by private institutions. This instrument facilitates an adequate supply of mortgage funds by reducing the risk to lenders and encouraging the secondary market trading of mortgages, and thereby increasing the access to housing by Canadians. The Mortgage Insurance Fund and Mortgage-Backed Securities Guarantee Fund support Market Housing Initiatives.

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

CORPORATE ACCOUNT

AUDITOR'S REPORT

TO THE HONOURABLE ALAN A. REDWAY, P.C., M.P.
MINISTER OF STATE (HOUSING)

I have examined the balance sheet of the Canada Mortgage and Housing Corporation, Corporate Account as at December 31, 1988, and the statements of operations and reserve fund and of changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation at December 31, 1988, and the results of its operations and changes in financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of these financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Canada Mortgage and Housing Corporation Act, the National Housing Act and the by-laws of the Corporation.

Robert D. Hepburn, C.A.
of the firm Deloitte Haskins & Sells

Ottawa, Canada
February 22, 1989

CORPORATE ACCOUNT

BALANCE SHEET DECEMBER 31, 1988
(in thousands of dollars)

ASSETS	1988	1987
Loans and investments	9,248,315	9,469,865
Accounts receivable	12,098	10,920
Due from the Minister	26,044	33,033
Due from Funds Administered	99	
Deferred income taxes		6,147
Business premises and equipment	16,784	15,174
Other assets	3,142	4,978
	9,306,482	9,540,117

LIABILITIES	1988	1987
Borrowings from the Government of Canada	9,008,451	9,270,625
Cheques issued in excess of funds on deposit	132,311	111,883
Accounts payable and accrued liabilities	56,473	52,753
Due to the Receiver General for Canada	56,895	41,291
Deferred income taxes	2,352	
Due to Funds Administered		13,565
	9,256,482	9,490,117
CAPITAL AND RESERVE FUND		
Capital		
Authorized and fully paid by the Government of Canada	25,000	25,000
Reserve fund	25,000	25,000
	9,306,482	9,540,117

See accompanying notes.

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

CORPORATE ACCOUNT

STATEMENT OF OPERATIONS AND RESERVE FUND
YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Interest earned	834,963	855,546
Interest expense	785,408	800,934
Margin on financing operations	49,555	54,612
Real estate sales	76,828	48,115
Cost of real estate sold	26,923	24,974
Gain on real estate	49,905	23,141
Other income	13,947	13,706
Income before operating expenses	113,407	91,459
Operating expenses	25,704	24,201
Income before income taxes	87,703	67,258
Income taxes	37,545	32,222
Net income	50,158	35,036
Reserve fund, beginning of year	25,000	25,000
	75,158	60,036
Transferred to the Receiver General for Canada	50,158	35,036
Reserve fund, end of year	25,000	25,000

See accompanying notes.

CORPORATE ACCOUNT

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Operating activities		
Net income	50,158	35,036
Add: net change in accrued interest	982	813
depreciation and amortization	2,315	2,643
writedown of real estate	242	8,869
deferred income taxes	8,499	1,544
	62,196	48,905
Paid to the Receiver General for Canada	(34,555)	(24,600)
Change in due to Funds Administered	(13,664)	9,890
Change in due from the Minister	6,989	(6,732)
Other	4,381	(3,469)
	25,347	23,994
Investment activities		
Repayment of loans and investments	468,547	517,835
Additions to loans and investments	(251,246)	(259,700)
Additions to business premises and equipment	(3,926)	(3,143)
	213,375	254,992
Financing activities		
Borrowings from the Government of Canada	269,000	269,900
Repayment of borrowings from the Government of Canada	(528,150)	(510,771)
	(259,150)	(240,871)
Increase (decrease) in cash	(20,428)	38,115

See accompanying notes.

CORPORATE ACCOUNT

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988

1. Significant accounting policies

In the Corporate Account, the Corporation follows generally accepted accounting principles. The financial statements of the Mortgage Insurance Fund and the other Insurance and Guarantee Funds are not included in these financial statements. The principal accounting policies followed by the Corporation are:

(a) Loans

Loans under certain programs give rise to interest rate losses which are recoverable from the Minister. If loans contain forgiveness clauses, such forgiveness is recorded and recovered from the Minister when the loans are advanced. No provisions are made for possible losses on loans as losses on insured loans are recoverable from the Mortgage Insurance Fund while property acquired upon default of uninsured loans is subject to loss recovery as described under Real Estate. Other losses on uninsured loans are recoverable from the Minister.

(b) Federal-provincial agreements

Loans and investments are made under various cost-sharing agreements with the provinces and territories to encourage development of rental housing, land assembly, co-operative housing, rural and native housing and housing rehabilitation. Only the Corporation's share of costs plus capitalized interest are reflected in these statements. The Corporation's share of subsidies and losses related to these agreements are recovered from the Minister. Gains on the sale of land assembly projects are recognized as income in the Corporate Account.

(c) Real estate

Real estate includes vacant land and properties acquired directly by the Corporation, or through the Government of Canada at no cost, or through default on uninsured loans. All real estate is recorded at cost which includes acquisition costs and any modernization and improvement costs.

Holding costs, including interest, on real estate acquired directly by the Corporation are capitalized up to appraised values after which the costs are expensed in the Corporate Account. Gains or losses on the disposal of these properties are recorded in the Corporate Account. Losses resulting from permanent declines in the value of property are recognized in the period in which they are identified.

Holding costs, including interest, on real estate acquired through the Government of Canada at no cost, or through default on uninsured loans, are capitalized. Gains or losses on the disposal of these properties are paid to or recovered from the Minister.

All net operating losses on real estate are recovered from the Minister.

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

CORPORATE ACCOUNT

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988—*Continued*

(d) Depreciation

Depreciation of buildings included in real estate is recorded on a straight-line basis over the expected useful life of the properties which is normally fifty years. Depreciation on business premises, office furniture and equipment is recorded on a diminishing balance basis.

(e) Pension costs and obligations

The cost of pension benefits earned by employees is determined using the projected benefit method prorated on service and is charged to operating expense as services are rendered. This cost is actuarially computed using Management's best estimate assumptions of the pension plan expected investment yields, salary escalations, mortality of members, terminations and the ages at which members will retire. Adjustments arising from plan amendments, experience gains and losses and changes in assumptions are amortized over the expected average remaining service life of the employee group.

f) Reserve fund

Income or loss after income taxes is transferred to the Reserve Fund which is limited by an Order-in-Council to $25 million. Any excess over this amount is transferred to the credit of the Receiver General for Canada.

(g) Interest income and expense

Interest income and expense are accounted for on the accrual basis.

2. Loans and investments

The loans and investments of the Corporation at December 31 comprise:

	1988	1987
	(in thousands of dollars)	
Loans	4,890,300	5,185,454
Federal-provincial agreements		
Loans	2,826,492	2,817,261
Investments in housing projects	1,460,749	1,385,694
Land assembly projects	27,082	35,639
	4,314,323	4,238,594
Real estate		
Investments in housing projects	15,839	18,242
Land	27,853	27,575
	43,692	45,817
Total loans and investments	9,248,315	9,469,865

3. Business premises and equipment

	Cost	Accumulated depreciation and amortization	Net book value 1988	Net book value 1987	Depreciation rates
	(in thousands of dollars)				
Land	358		358	358	
Buildings	12,904	6,060	6,844	6,076	5%
Equipment	26,807	18,866	7,941	6,921	8%, 20%, 30%
Leasehold improvements	6,030	4,389	1,641	1,819	20%
Total	46,099	29,315	16,784	15,174	

Depreciation and amortization in respect of the above assets for the year amounted to $2,315 (1987—$2,643).

4. Borrowings from the Government of Canada

The Corporation borrows from the Government of Canada under the provisions of the Canada Mortgage and Housing Corporation Act and the National Housing Act to finance loans and investments. The borrowings are evidenced by debentures or other evidences of indebtedness, which bear interest at rates varying from 2.00% to 17.96% and are repayable over periods not in excess of 50 years. Regularly scheduled payments over the next five years are as follows:

	(in thousands of dollars)
1989	273,000
1990	231,500
1991	210,500
1992	219,500
1993	222,300

5. Contingent liabilities

In the normal course of operations, the Corporation is subject to legal claims, the effect of which cannot be determined until they are settled. During 1982, a large number of legal actions, which total approximately $48 million at December 31, 1988, were begun against the Corporation jointly with other parties claiming damages arising from installation of urea formaldehyde foam insulation. In addition, other legal actions totalling $4.1 million are pending. The Corporation does not admit liability in these cases and, until the actions have been heard by the courts, it is impossible to determine if there is a potential liability in this respect and thus no provision for possible loss arising from these legal actions is included in these financial statements. Should costs arise as a result of these actions they would be expensed in the year when the costs are incurred.

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

CORPORATE ACCOUNT

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988—*Concluded*

6. Interest loss recoveries

The Corporation was authorized by the Government of Canada to approve certain loans and investments at a negative interest margin and to recover this loss from the Government. The interest loss recovered is included in interest earnings. The recoveries by program are as follows:

	1988	1987
	(in thousands of dollars)	
Market housing	60,060	64,596
Social housing	19,234	18,875
Housing support	1,160	1,199

7. Interest capitalized

The amount of interest capitalized in 1988 was $3.9 million (1987—$8.2 million).

8. Pension plan

The Corporation maintains a defined benefit pension plan for all employees who satisfy certain eligibility conditions. The plan provides pensions based on the highest annual average salaries of any six-year period multiplied by the number of years of credited service.

The Corporation's funding policy is to contribute the amount required to provide for current benefits attributed to service and for unfunded pension plan liabilities over periods permitted by regulatory authorities.

Based on the actuarial valuation prepared as of January 1, 1987 and using Management's best estimate assumptions the status of the plan as at December 31 is as follows:

	1988	1987
	(in thousands of dollars)	
Projected value of accrued pension benefits	399,272	377,319
Net assets available for benefits	403,661	370,171
Excess of net assets over projected value of accrued pension benefits	4,389	(7,148)

The cost of pension benefits charged to operating expenses, including amounts paid to government pension plans, current service costs, the amortization of past service costs and experience gains and losses, was $9.6 million (1987—$9.5 million).

9. Operating expenses

Total operating expenses of the Corporation for the year ended December 31, 1988 amounted to $190.4 million (1987—$173.6 million), of which $164.7 million has been allocated to the Minister's Account and Funds Administered in 1988 (1987—$149.4 million).

10. Commitments

(a) Loans and investments

Commitments outstanding for loans and investments amounted to $291.8 million at December 31, 1988 (1987—$405 million).

(b) Operating leases

Minimum future rental commitments for business premises and equipment under long-term non-cancellable leases for the next 5 years are:

	Business premises	Equipment	Total
	(in thousands of dollars)		
1989	6,312	10,548	16,860
1990	4,596	9,758	14,354
1991	2,367	6,539	8,906
1992	797	5,687	6,484
1993	491	5,593	6,084
	14,563	38,125	52,688

(c) Capital lease

Pursuant to the Corporation's plans to consolidate National Office operations in one location it has entered into a series of agreements pertaining to the construction of a new building on Corporation-owned properly at its National Office location. Construction is expected to be completed by July, 1990.

The cost of construction, estimated at $39 million is being financed by way of a 25-year building lease which for accounting purposes is considered a capital lease. Under the lease the Corporation is obligated to make payments of $5.2 million per annum for the first 10 years and $3.6 million per annum for the remaining 15 years of the lease term. Payments will commence on the first day of the month immediately following the month which the date of completion occurs.

At the termination of the lease the Corporation assumes ownership of the building at a cost of one dollar.

11. Comparative figures

The 1987 comparative figures have been reclassified to conform to the 1988 statement presentation.

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

MINISTER'S ACCOUNT

AUDITOR'S REPORT

TO THE HONOURABLE ALAN A. REDWAY, P.C., M.P.
MINISTER OF STATE (HOUSING)

I have examined the Canada Mortgage and Housing Corporation, Minister's Account—Statement of Expenditures and Recoveries for the year ended December 31, 1988. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, this financial statement presents fairly the expenditures for and recoveries from the Minister for the year then ended in accordance with the accounting policy described in Note 1 to this financial statement applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions in the Minister's Account that have come to my notice during my examination of the financial statement have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Canada Mortgage and Housing Corporation Act, the National Housing Act and the by-laws of the Corporation.

Robert D. Hepburn, C.A.
of the firm Deloitte Haskins & Sells

Ottawa, Canada
February 22, 1989

MINISTER'S ACCOUNT

STATEMENT OF EXPENDITURES AND RECOVERIES
YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Expenditures		
Market housing	76,613	77,355
Social housing	1,337,676	1,309,299
Housing support	11,786	9,646
Operating expenses	95,957	83,357
	1,522,032	1,479,657
Due from the Minister, beginning of year	33,033	26,301
	1,555,065	1,505,958
Recoveries	1,529,021	1,472,925
Due from the Minister, end of year	26,044	33,033

See accompanying notes.

MINISTER'S ACCOUNT

NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 1988

1. Significant accounting policy

Expenditures made on behalf of the Minister of State (Housing) are recorded as recoverable when disbursed. No accruals are made at December 31, 1988 in this account. The year-end for the Government of Canada is March 31, 1989, at which time accruals will be recorded in accordance with Treasury Board Guidelines and reported in the Public Accounts of Canada.

2. Contingent liabilities

In the normal course of operations, the Corporation is subject to legal claims, the effect of which cannot be determined until they are settled. During 1982, a large number of legal actions, which total approximately $48 million at December 31, 1988, were begun against the Corporation jointly with other parties claiming damages arising from installation of urea formaldehyde foam insulation. The Corporation does not admit liability in this respect and it is unclear whether costs, if any, arising from these actions could be charged to the Government of Canada. In addition other legal actions totalling $25.1 million are pending against the Corporation to which the Corporation does not admit liability. If these actions were to be successfully maintained against the Corporation, charges against the Minister's account could result. No provision for possible loss arising from these legal actions is included in the accompanying statement of account. Should costs arise as a result of these actions they would be charged in the year when the costs are incurred.

3. Operating expenses

The operating expenses charged to the Minister by the Corporation for the year ended December 31, 1988 amounted to $96.0 million (1987—$83.4 million).

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

FUNDS ADMINISTERED

AUDITOR'S REPORT

TO THE HONOURABLE ALAN A. REDWAY, P.C., M.P.
MINISTER OF STATE (HOUSING)

I have examined the balance sheets of the Funds Administered by Canada Mortgage and Housing Corporation: Mortgage Insurance Fund, Morgage-Backed Securities Guarantee Fund, Home Improvement Loan Insurance Fund and Rental Guarantee Fund as at December 31, 1988, and the statements of operations and deficit or surplus. I have also examined the statements of changes in financial position of the Mortgage Insurance Fund and the Morgage-Backed Securities Guarantee Fund for the year then ended. My examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of these funds as at December 31, 1988, and the results of operations and changes in financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions that have come to my notice during my examination of these financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Canada Mortgage and Housing Corporation Act, the National Housing Act and the by-laws of the Corporation.

Robert D. Hepburn, C.A.
of the firm Deloitte Haskins & Sells

Ottawa, Canada
February 22, 1989

FUNDS ADMINISTERED
MORTGAGE INSURANCE FUND

BALANCE SHEET DECEMBER 31, 1988
(in thousands of dollars)

ASSETS	1988	1987	LIABILITIES	1988	1987
Account receivable	4,545	4,494	Accounts payable and accrued liabilities	9,480	11,128
Due from Canada Mortgage and Housing Corporation		13,066	Due to Canada Mortgage and Housing Corporation	592	
Investment in securities	497,609	307,545	Provision for claims	166,937	170,047
Mortgages	40,313	72,226	Unearned premiums	525,966	455,600
Real estate	153,008	172,114	Premium deficiency	108,601	190,767
				811,576	827,542
			Deficit	116,101	258,097
	695,475	569,445		695,475	569,445

See accompanying notes.

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

FUNDS ADMINISTERED
MORTGAGE INSURANCE FUND

STATEMENT OF OPERATIONS AND DEFICIT
YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Revenues		
Earned premiums	113,959	102,987
Application fees	20,129	20,762
Investment income	43,550	28,028
	177,638	151,777
Expenses		
Loss on claims	53,464	76,312
Issuance	44,119	39,917
Operating	23,335	24,777
Adjustment to provision for claims	(3,110)	(93,145)
	117,808	47,861
Earnings	59,830	103,916
Adjustment to premium deficiency	82,166	71,276
Net earnings	141,996	175,192
Deficit, beginning of year	258,097	433,289
Deficit, end of year	116,101	258,097

See accompanying notes.

FUNDS ADMINISTERED
MORTGAGE INSURANCE FUND

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Operating activities		
Premiums received	184,325	163,041
Application fees	20,129	20,762
Investment income received	29,213	25,041
Claims paid	(127,844)	(175,892)
Proceeds from sales of real estate	121,175	198,750
Issuance and operating expenses	(68,015)	(64,969)
Other	3,985	5,922
	162,968	172,655
Investment activities		
Investment in securities	(176,626)	(163,095)
Increase (decrease) in due from Canada Mortgage and Housing Corporation	(13,658)	9,560

See accompanying notes.

FUNDS ADMINISTERED
MORTGAGE-BACKED SECURITIES GUARANTEE FUND

BALANCE SHEET DECEMBER 31, 1988
(in thousands of dollars)

ASSETS	1988	1987
Due from Canada Mortgage and Housing Corporation	278	347
Investment in securities	1,560	
Deferred operating expenses	80	90
	1,918	437

LIABILITIES	1988	1987
Unearned guarantee fees	2,281	850
Deficit	363	413
	1,918	437

See accompanying notes.

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

FUNDS ADMINISTERED
MORTGAGE-BACKED SECURITIES GUARANTEE FUND

STATEMENT OF OPERATIONS AND DEFICIT
YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Revenue		
Earned guarantee fees	331	88
Application fees	261	113
Investment income	87	5
	679	206
Expenses		
Operating	629	619
	629	619
Net income (loss)	50	(413)
Deficit, beginning of year	413	
Deficit, end of year	363	413

See accompanying notes.

FUNDS ADMINISTERED
MORTGAGE-BACKED SECURITIES GUARANTEE-FUND

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Operating activities		
Guarantee fees received	1,762	938
Application fees	261	113
Interest received	65	5
Operating expenses	(619)	(709)
	1,469	347
Investment activities		
Investment in securities	1,538	
	1,538	
Increase (decrease) in due from Canada Mortgage and Housing Corporation	(69)	347

See accompanying notes.

FUNDS ADMINISTERED
HOME IMPROVEMENT LOAN INSURANCE FUND

BALANCE SHEET DECEMBER 31, 1988
(in thousands of dollars)

ASSETS	1988	1987	LIABILITIES	1988	1987
Investment in securities	1,024	940	Surplus	1,070	946
Due from Canada Mortgage and Housing Corporation	42	1			
Mortgages	4	5			
	1,070	946		1,070	946

See accompanying notes.

FUNDS ADMINISTERED
HOME IMPROVEMENT LOAN INSURANCE FUND

STATEMENT OF OPERATIONS AND SURPLUS
YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Revenue		
Investment income	93	107
Other	40	21
	133	128
Expenses		
Claims and operating expenses	9	21
Net income	124	107
Surplus, beginning of year	946	1,339
Assets returned to the Government of Canada		500
Surplus, end of year	1,070	946

See accompanying notes.

CANADA MORTGAGE AND HOUSING CORPORATION—*Continued*

FUNDS ADMINISTERED
RENTAL GUARANTEE FUND

BALANCE SHEET AS AT DECEMBER 31, 1988
(in thousands of dollars)

ASSETS	1988	1987	LIABILITIES	1988	1987
Investment in securities	3,480	2,782	Accrued liabilities	413	18
Due from Canada Mortgage and Housing Corporation	173	151	Surplus	11,540	10,615
Real estate	8,300	7,700			
	11,953	10,633		11,953	10,633

See accompanying notes.

FUNDS ADMINISTERED
RENTAL GUARANTEE FUND

STATEMENT OF OPERATIONS AND SURPLUS
YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Revenue		
Investment income	284	297
Other	607	628
	891	925
Expenses		
Provision for (gain) loss on real estate	(34)	34
Net income	925	891
Surplus, beginning of year	10,615	11,224
Assets returned to the Government of Canada		1,500
Surplus, end of year	11,540	10,615

See accompanying notes.

FUNDS ADMINISTERED

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988

1. Significant accounting policies

The principal accounting policies followed by the Corporation in administering the Insurance and Guarantee Funds on behalf of the Government of Canada are:

(a) Basis of presentation

Bill C-111, which established the Mortgage-Backed Securities Guarantee Fund, received Royal Assent July 21, 1988. The Fund commenced operations January 1, 1987. In 1987, the results of the Fund's operations were combined with the Mortgage Insurance Fund. For 1988, the financial position and results of its operations have been presented in a separate set of financial statements. The figures for the Mortgage Insurance Fund for the year ended December 31, 1987, have been reclassified accordingly.

(b) Investment in securities

Investments are carried at amortized cost plus accrued interest.

(c) Mortgages

Mortgages are valued at cost less a provision for estimated losses.

(d) Real estate

Real estate acquired upon the payment of a claim resulting from a loan default is valued at net realizable value. Net realizable value is calculated as the current appraised value of the property, as determined by the Corporation, less the discounted value of estimated holding and disposal costs. Depreciation is not recorded on the real estate.

(e) Provision for claims

This provision represents the estimated loss on claims in process of payment and the estimated loss on loans, where defaults have occurred, but for which claims have not yet been received by the Corporation.

CANADA MORTGAGE AND HOUSING CORPORATION—*Concluded*

FUNDS ADMINISTERED

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988—*Concluded*

(f) Premium deficiency

Annually, the Corporation compares the amount of its unearned premiums by line of business to the discounted costs of claims that have not yet occurred on insurance policies in force. Whenever it is determined that the unearned premiums on a line of business are inadequate to meet the expected net costs of future claims, a premium deficiency is established. The premium deficiency is taken into income on the same basis as the related unearned premiums.

(g) Premiums

Premiums are deferred and are taken into income over the life of the related policies based on the risk of default in each year.

(h) Guarantee fees

Guarantee fees are deferred and are taken into income over the term of the relative Mortgage-Backed Security issue on a straight-line basis. Issues currently exist for 5-,10- and 20-year terms.

(i) Application fees

Application fees are recognized as income when received.

(j) Investment income

Investment income is recorded on the accrual basis.

(k) Issuance costs

Issuance costs are expensed as incurred.

(l) Income tax

The Insurance and Guarantee Funds are not subject to the provisions of the Income Tax Act, Canada.

2. Investment in securities

(a) Mortgage Insurance Fund

	December 31			
	1988		1987	
	Book value	Market value	Book value	Market value
Bank deposits	85,359	85,359		
Treasury bills	339,151	339,151	307,545	307,545
Government of Canada Bonds	73,099	71,319		
Total	497,609	495,829	307,545	307,545

(b) Other funds

Investments in Treasury Bills for the other three Funds at December 31, 1988 collectively amount to $6.1 million (1987—$3.7 million).

3. Contingent liabilities

In the normal course of operations, the Mortgage Insurance Fund is subject to legal claims, the effect of which cannot be determined until they are settled. At December 31, 1988, 12 such claims totalling in aggregate $16.5 million are pending. The fund does not admit liability and, until the actions have been heard by the courts, it is impossible to determine if there is a potential liability in this respect and thus no provision for possible loss arising from these legal actions is included in these financial statements. Should costs arise as a result of these actions they would be expensed in the year when the costs are incurred.

4. Actuarial valuation—Mortgage Insurance Fund

An actuarial study of the Fund as at September 30, 1988 disclosed that the Fund continues to be insufficient to pay all future claims in respect of business in force. The deficit as at September 30, 1988 was estimated to be $141.4 million (September 30, 1987—$251.7 million).

5. Insurance in force—Mortgage Insurance Fund

At December 31, 1988, the insurance policies in force totalled approximately $44.9 billion (1987—$41.7 billion).

6. Guarantees in Force—Mortgage-Backed Securities Guarantee Fund

At December 31, 1988, the guarantees in force totalled approximately $1.2 billion (1987—$0.4 billion).

7. Home Improvement Loan Insurance and Rental Guarantee Funds

The Home Improvement Loan Insurance and Rental Guarantee Programs are no longer active.

8. Operating expenses

The operating expenses allocated to the Funds by the Corporation for the year ended December 31, 1988 amounted to $68.7 million (1987—$66.0 million).

9. Comparative figures

The 1987 comparative figures have been reclassified to conform to the 1988 statement presentation.

SUMMARY PAGE

CANADA MUSEUMS CONSTRUCTION CORPORATION INC.

MANDATE

To construct in the National Capital Region the National Gallery of Canada, the Canadian Museum of Civilization, (formerly called The National Museum of Man) and any other museum as the Governor in Council may direct.

BACKGROUND

The new National Gallery came into public use in June 1988 and control and use of the building has since been transferred to the Department of Public Works. The Museum of Civilization opened in June 1989. To March 31, 1989, the government had allocated a total of $422.0 million for these construction projects including fit-up costs and initial operations. Some of this money will be disbursed by other agencies (National Museums of Canada, National Capital Commission and the Department of Public Works). Unless the Governor-in-Council directs otherwise, the corporation shall be wound up after these projects have been completed; the corporation expects that its operations will be ended by March 31, 1990.

CORPORATION DATA

HEAD OFFICE	55 Murray Street P.O. Box 395, Station A Ottawa, Ontario K1N 5M3
STATUS	— Schedule III, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Elmer MacKay, P.C., M.P.
DEPARTMENT	Public Works
YEAR AND MEANS OF INCORPORATION	1982; by letters patent (No. 0132114) under the *Canada Business Corporations Act.*
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Robert Giroux
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) Financial year ending March 31.

	1989	**1988**	**1987**	**1986**
At the end of the period				
Total Assets	177.1*	249.9	173.2	100.3
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	155.5	226.1	157.4	91.3
Cash from Canada in the period				
— budgetary	68.0	68.8	66.0	46.5
— non-budgetary	nil	nil	nil	nil

* Assets etc. values reflect the transfer of the National Gallery to Department of Public Works.

CANADA MUSEUMS CONSTRUCTION CORPORATION INC.

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Canada Museums Construction Corporation Inc. are the responsibility of management and have been approved by members of the Board of Directors of the Corporation. The financial statements have been prepared by management in accordance with generally accepted accounting principles and, where appropriate, include amounts based on management's estimates and judgement. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the financial statements.

Management has developed and maintains books of account, records, financial and management controls and information systems. These are designed to provide reasonable assurance that assets are safeguarded and controlled and that transactions are in accordance with Part X of the Financial Administration Act and regulations, and the articles and by-laws of the Corporation.

The members of the Board of Directors carry out their responsibilities for the financial statements principally through an Audit Committee which is composed of three directors, two of whom are not employees of the Corporation. The Audit Committee meets at least annually to review and advise the Board of Directors with respect to the financial statements and the auditor's report thereon. The Audit Committee also oversees the internal audit activities of the Corporation and performs such other functions as are assigned to it.

The independent auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing his report thereon.

R.J. Giroux
Chairman and Chief Executive Officer

R. Plourde
Treasurer and Comptroller

AUDITOR'S REPORT

TO THE MINISTER OF PUBLIC WORKS

I have examined the balance sheet of Canada Museums Construction Corporation Inc. as at March 31, 1989 and the statement of changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, and the articles and by-laws of the Corporation.

Raymond Dubois, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 6, 1989

BALANCE SHEET AS AT MARCH 31, 1989
(in thousands of dollars)

ASSETS	1989	1988
Cash	453	2,843
Accounts receivable		
Due from Canada—Parliamentary appropriation	4,700	
Government entities (Note 9)	15,723	6,997
Others	77	258
Construction in progress (Schedule)	156,178	239,784
	177,131	249,882

LIABILITIES	1989	1988
Accounts payable and accrued liabilities	12,481	14,281
Contractors' holdbacks payable	9,177	9,504
	21,658	23,785
SHAREHOLDERS' EQUITY		
Capital stock (Note 3)		
Contributed capital (Note 4)	155,473	226,097
	177,131	249,882

Approved by the Board:

R. J. GIROUX
Chairman and Chief Executive Officer

JEAN PIGOTT
Director

CANADA MUSEUMS CONSTRUCTION CORPORATION INC.—*Continued*

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1989
(in thousands of dollars)

	1989	1988
Operating activities		
Construction in progress (Schedule)	(54,977)	(71,646)
Changes in non-cash assets and liabilities		
Accounts receivable from government entities end others	(8,545)	(6,706)
Accounts payable and accrued liabilities	(1,800)	6,505
Contractors' holdbacks payable	(327)	1,451
	(65,649)	(70,396)
Financing activities		
Parliamentary appropriation (Note 4)	63,259	68,750
Decrease in cash	(2,390)	(1,646)
Cash at beginning of year	2,843	4,489
Cash at end of year	453	2,843

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989

1. Authority and activities

The Corporation was incorporated on June 21, 1982 under the Canada Business Corporations Act as an agent of Her Majesty pursuant to the Government Companies Operations Act, and is named as a parent Crown corporation in Part I of Schedule III to the Financial Administration Act. Two-thirds of the capital stock is held by the Canada Lands Company Limited, also a parent Crown corporation, and one-third by the Minister of Public Works, the Responsible Minister with whom the control of the Corporation lies.

The business of the Corporation is limited to construction, in the National Capital Region, of buildings for the National Gallery of Canada (NGC), the Canadian Museum of Civilization (CMC) (previously known as National Museum of Man) and any other national museum which the Governor in Council may direct, including the acquisition, control, administration and disposal of land required for the construction. Unless otherwise directed by the Governor in Council, the Corporation shall be wound up after completion of the museum construction projects. The Corporation expects to wind up its operations by March 31, 1990. During 1988-89, Treasury Board noted that the ongoing status of the Corporation beyond 1989-90 will be addressed in the Corporation's next operational plan.

(a) Funding

In September 1981, the Government allocated $185 million for the two projects. This was revised in November 1983 to $191.45 million and subsequent additional increases were approved by Treasury Board as follows:

	$
• October 1985	69.54 million
• January 1987	46.79 million
• July 1987	0.75 million
• November 1987	4.5 million
• June 1988	9.5 million
• May 1989	3.5 million

bringing the total of funds allocated for construction of the museums to $326.03 million for the period to March 31, 1990 as follows:

	NGC	CMC	Total
	(in millions of dollars)		
Construction	121.84	152.38	274.22
Architects and consultants	14.31	23.85	38.16
	136.15	176.23	312.38
Administration expenses	6.28	7.37	13.65
	142.43	183.60	326.03

In January 1987, Treasury Board approved the establishment of a special reserve of $142.8 million to provide the required funding to March 31, 1990 for all agencies (Department of Public Works, National Museums of Canada, National Capital Commission and Canada Museums Construction Corporation) involved in completing the Canadian Museum of Civilization. The reserve is to cover all incremental costs associated with completing the Museum, including construction, fit-up, exhibit development and initial operating costs of the Museum. Treasury Board approved a project level of $176.23 million to complete construction of the Museum. Any further cost increases are to be absorbed within the reserve and/or from approved funds within the portfolios of the Ministers of Public Works and of Communications.

(b) Construction

In February 1983, the Government approved the construction sites and architects and, in November 1983 building concepts, construction schedule, and funding requirements for each museum. No provision was made for the cost of the sites. Major portions of the sites for the two museums are federally owned with the legal title to the lands currently belonging to the National Capital Commission (NCC) and the Department of Public Works (DPW). In keeping with the intent of the projects, which includes the eventual transfer of the completed buildings to Her Majesty in right of Canada, the NCC disclaims title to the construction in progress. In June 1988, the NCC transferred to DPW for a nominal consideration of $1 all lands relating to the National Gallery of Canada. Negotiations by DPW and NCC to acquire parts of the site of the Canadian Museum of Civilization that are not federally owned are continuing.

(c) Transfer of National Gallery of Canada building

During 1988-89, custody and control of the National Gallery of Canada building was transferred from the Corporation to the Department of Public Works. Accordingly, the construction in progress and contributed capital accounts have been reduced by the net construction cost to March 31, 1989 in the amount of $138.583 million. In accordance with the terms of the transfer, however, the Corporation continues to be responsible for resolving outstanding construction and consultant claims thereon.

CANADA MUSEUMS CONSTRUCTION CORPORATION INC.—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989—*Continued*

(d) Authority for Canada Museums Construction Corporation to act as agent for National Museums of Canada (NMC)

On February 25, 1988, Treasury Board gave approval to amend the contracting authority for NMC in Part II of the Treasury Board Contracts Directive to include the following: "The NMC may, without the approval of the Treasury Board, enter into or amend a competitive construction contract related to the fit-up requirements for integration into the base building for the Canadian Museum of Civilization and the National Gallery of Canada provided the total amount payable under each contract does not exceed $2.5 million and any amendments thereof do not exceed $250,000. This authority is only valid for requirements where the CMCC is used as the contracting agent for the NMC".

(e) Fit-up and Exhibit development

On June 26, 1987, Treasury Board gave preliminary project approval for fit-up and exhibit development of the Canadian Museum of Civilization at an estimated cost of $75.3 million to March 31, 1990 and expenditure authority of $60 million. Treasury Board has recently increased the expenditure authority to $78.4 million. Responsibility for the fit-up and exhibition development has been assigned by Treasury Board to the National Museums of Canada (NMC) and the Canadian Museum of Civilization (CMC).

An agreement has been reached with NMC for the Corporation to provide certain services related to the design, supply and installation of elements of the exhibition development and fit-up work in conjunction with the Department of Public Works. These services are being provided by the Corporation on a cost recovery basis.

The Corporation is also providing project management services on a cost recovery basis and is directing the work of the consultant designers and construction managers under an arrangement with the NMC for the NGC fit-up program.

2. Significant accounting policies

(a) Basis of accounting

These financial statements account for the costs incurred by the Corporation in the construction of the museums. They do not account for costs incurred by the National Capital Commission for sites or by the National Museums of Canada for accommodation planning and fit-ups.

(b) Capitalization

All expenditures, including those for site evaluation, design, construction and administration, will be capitalized until the museums are completed. Interest, management fees and cost recoveries are credited to construction in progress. Costs are allocated directly to each museum when they can be specifically identified. The Administration costs are allocated to each project on the basis described in Note 10.

3. Capital stock

The Corporation is authorized to issue three shares with a nominal value of $1 which shall not be transferred without the approval of the Governor in Council.

4. Contributed capital

During the year funding of $67.96 million (1988—$68.75 million) was provided by parliamentary appropriation through Vote 20 of the Department of Public Works for the expenditures of the Corporation of which $63.259 million was received in the 1988-89 and $4.7 million in 1989-90.

	1989	1988
	(in thousands of dollars)	
Opening balance	226,097	157,347
Parliamentary appropriation	67,959	68,750
Transfer of net cost of NGC building	(138,583)	
Ending balance	155,473	226,097

5. Pension plan

The Corporation has instituted, with a private sector organization, a contributory pension plan covering all its regular employees. The employees and the Corporation contribute equally to the cost of the plan. The Corporation's contributions represent its total liability and are recognized in the accounts on a current basis. Pension costs for the plan amounted to $79,593 for the year ended March 31, 1989 (1988—$78,392).

6. Contractual obligations

As at March 31, 1989, commitments for construction and related costs amounted to approximately $22.8 million as follows:

	(in thousands of dollars)
Canadian Museum of Civilization	22,541
National Gallery of Canada	220
	22,761

7. Lease commitment

The Corporation has renewed, until March 31, 1990, its lease agreement for office space. Under the terms of the lease the Corporation is responsible for payment of operating expenses and taxes to the lessor. The minimum annual rental payment for 1989-90 is $378,326.

8. Contingencies and claims

Claims have been made against the Corporation totalling approximately $15.0 million for additional fees and other costs. The final outcome of these claims is not determinable and accordingly these items are not reflected in the accounts. Settlements, if any, resulting from the resolution of these claims will be accounted for in the year in which the settlements occur.

The Corporation has given notice to its architects of possible claims under professional liability insurance policies. These claims are under review. To date no actions have been taken by its architects or insurers and no provision for amounts to be recovered has been made in the financial statements.

CANADA MUSEUMS CONSTRUCTION CORPORATION INC.—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989—*Concluded*

9. Related party transactions

(a) Under arrangements with the Department of Public Works, National Museums of Canada and National Capital Commission, the Corporation receives or provides various services. The following summarizes the transactions:

	Accounts receivable (payable) March 31, 1988	Amounts billed to (from) during 1989	Amounts (received) paid during 1989	Accounts receivable (payable) March 31, 1989
	(in thousands of dollars)			
Receivables				
National Museums of Canada				
Public space fit-up in CMC	784	16,129	(2,987)	13,926
Imax/Omnimax Theatre in CMC	1,785	2,804	(3,013)	1,576
Public space fit-up in NGC	1,473	2,878	(4,317)	34
Skylights in NGC		275	(267)	8
Rideau Street Chapel in NGC	1,155	122	(1,271)	6
National Capital Commission				
Landscaping of NGC and CMC	1,535	3,357	(4,820)	72
Department of Public Works				
Public utilities for NGC and CMC	265	208	(387)	86
Other services		15		15
	6,997	25,788	(17,062)	15,723
Payable				
Department of Public Works				
Technical and engineering support services	(81)	(516)	139	(458)

(b) Under an agreement relating to landscaping of both museums with the National Capital Commission, the Corporation is to be reimbursed for expenditures incurred to a maximum of $7.7 million.

(c) The Corporation receives audit and legal services without charge from the Office of the Auditor General of Canada and the Department of Justice of Canada respectively.

10. Administration expenditures

The Corporation incurred the following administration expenditures during the year. In the past, these expenditures were allocated equally to each Museum on the schedule of construction in progress. With the completion of the National Gallery, the method of allocation has been changed. It is now based on the cost incurred on each project relative to total annual construction costs.

	1989	1988
	(in thousands of dollars)	
Salaries and employee benefits	1,590	1,119
Office accommodation	432	348
Technical and engineering support	409	251
Communications	62	55
Professional and special services	53	113
Public information	35	31
Utilities, material and supplies	33	35
Travel and transportation	21	45
Rental of equipment	19	25
Office furniture and equipment	17	70
Other	11	17
	2,682	2,109
Less management fees	(950)	(227)
	1,732	1,882

CANADA MUSEUMS CONSTRUCTION CORPORATION INC.—*Concluded*

SCHEDULE OF CONSTRUCTION IN PROGRESS
FOR THE YEAR ENDED MARCH 31, 1989
(in thousands of dollars)

	National Gallery of Canada			Canadian Museum of Civilization			Total		
	Balance to March 31, 1988	1989	Balance to March 31, 1989	Balance to March 31, 1988	1989	Balance to March 31, 1989	Balance to March 31, 1988	1989	Balance to March 31, 1989
Construction costs	108,515	3,851	112,366	76,003	40,510	116,513	184,518	44,361	228,879
Architects and consultants	12,632	977	13,609	18,924	3,516	22,440	31,556	4,493	36,049
Fit-up	5,501	3,275	8,776	3,513	18,275	21,788	9,014	21,550	30,564
Construction managers	5,244	350	5,594	5,072	2,569	7,641	10,316	2,919	13,235
Landscaping	4,233	981	5,214	1,675	4,225	5,900	5,908	5,206	11,114
	136,125	9,434	145,559	105,187	69,095	174,282	241,312	78,529	319,841
Administration (Note 10)	6,879	212	7,091	6,877	1,520	8,397	13,756	1,732	15,488
	143,004	9,646	152,650	112,064	70,615	182,679	255,068	80,261	335,329
Less:									
Funding by NMC for fit-up	5,501	3,275	8,776	3,513	18,275	21,788	9,014	21,550	30,564
Funding by NCC for landscaping	2,751	1,249	4,000	1,089	1,861	2,950	3,840	3,110	6,950
Interest income	1,215	76	1,291	1,215	548	1,763	2,430	624	3,054
	9,467	4,600	14,067	5,817	20,684	26,501	15,284	25,284	40,568
Net cost	133,537	5,046	138,583	106,247	49,931	156,178	239,784	54,977	294,761
Transfer of NGC to DPW		(138,583)	(138,583)					(138,583)	(138,583)
(Notes 1(c) and 4)	133,537	(133,537)		106,247	49,931	156,178	239,784	(83,606)	156,178

SUMMARY PAGE

CANADA PORTS CORPORATION

MANDATE

Planning and coordinating the development of the 15 ports and harbours, previously administered by the National Harbours Board, to achieve the objectives of the national ports policy and support Canadian international trade objectives, as well as other social and economic objectives. The corporation is also responsible for the direct administration, management and control of the ports and harbours not granted local port corporation status.

BACKGROUND

The corporation was established in 1983 with responsibility for the 15 ports and harbours across Canada that previously fell under the jurisdiction of the National Harbours Board. Subsequently, local port corporations were established at Montreal and Vancouver (in July 1983), at Halifax, Quebec and Prince Rupert (in June 1984), at St. John's (in June 1985), and at Saint John (in December 1986). These corporations are now operating with a high degree of local autonomy.

CORPORATION DATA

HEAD OFFICE	99 Metcalfe Street Ottawa, Ontario K1A 0N6
STATUS	— Schedule III, Part II — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Benoît Bouchard, P.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1983; pursuant to the *National Harbours Board Act* (R.S.C. 1970, N-8, s. 3); reconstituted by the *Canada Ports Corporation Act* (R.S.C. 1985, c. C-9).
CHIEF EXECUTIVE OFFICER	Jean Michel Tessier
CHAIRMAN	The Honourable Ronald Huntington, P.C.
AUDITOR	Coopers & Lybrand

FINANCIAL SUMMARY* ($ million) The financial year is the calendar year.

	1988	1987	1986 (restated)	1985 (restated)
At the end of the year				
Total Assets*	102.9	95.4	100.4	231.6
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	14.1***	1.5**	19.5	85.0
Equity of Canada	82.9	88.7	67.5	93.1
Cash from Canada in the year				
— budgetary	2.8	2.1	13.0	14.1
— non-budgetary	nil	nil	nil	2.6

* Assets and related liabilities of this corporation have been transferred to new local port corporations.

** In 1987, $17.8 million loan principal owed to Canada was forgiven. That amount and related interest forgiven was added to the corporation's contributed capital.

*** Includes $12.7 in dividends to Canada declared and unpaid, plus interest.

CANADA PORTS CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE BENOÎT BOUCHARD, P.C., M.P.
MINISTER OF TRANSPORT

We have examined the balance sheet of Canada Ports Corporation as at December 31, 1988 and the statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Canada Ports Corporation Act and the by-laws of the Corporation.

Coopers & Lybrand
Chartered Accountants

Ottawa, Canada
February 17, 1989

BALANCE SHEET AS AT DECEMBER 31, 1988
(in thousands of dollars)

ASSETS	1988	1987
Current		
Cash	348	351
Investments (Note 3)	39,925	26,715
Accounts receivable	1,597	2,303
Due from Canada	2,482	1,940
Materials and supplies	239	338
	44,591	31,647
Investments (Note 3)	18,361	18,293
Investment in Ridley Terminal Inc. (Note 4)	3,083	7,465
Fixed assets (Note 6)	36,894	38,009
	102,929	95,414

LIABILITIES	1988	1987
Current		
Accounts payable and accrued liabilities (Note 7)	3,908	3,268
Grants in lieu of municipal taxes	898	542
Due to Canada (Note 8)	12,668	
	17,474	3,810
Accrued employee benefits	1,171	1,392
Loans from Canada (Note 9)	1,406	1,487
	2,577	2,879
EQUITY OF CANADA		
Contributed capital	73,638	73,638
Retained earnings	9,240	15,087
	82,878	88,725
	102,929	95,414

On behalf of the Board:

THE HONOURABLE A.R. HUNTINGTON
Chairman

JEAN MICHEL TESSIER
President and Chief Executive Officer

CANADA PORTS CORPORATION—*Continued*

STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Revenue from operations	7,026	13,331
Operating and administrative expenses—Net	9,288	10,677
Depreciation	2,592	2,822
Grants in lieu of municipal taxes	1,117	1,202
	12,997	14,701
Net loss from operations	(5,971)	(1,370)
Investment income	4,750	4,368
Interest expense	(118)	(123)
Net income (loss) before the undernoted item	(1,339)	2,875
Share in loss of Ridley Terminals Inc. (Note 4)	(4,382)	(3,994)
Net loss	(5,721)	(1,119)
Retained earnings at beginning of the year, as restated (Note 4)	15,087	17,211
Dividend to Canada (Note 8)	(126)	(1,005)
Retained earnings at end of the year	9,240	15,087

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Operating activities		
Net loss	(5,721)	(1,119)
Items not affecting cash		
Depreciation	2,592	2,822
Share in loss of Ridley Terminals Inc.	4,382	3,994
Other	(218)	95
Decrease (increase) in operating components of working capital	13,927	(4,358)
Cash provided by operating activities	14,962	1,434
Financing activities		
Capital grants	2,775	2,144
Loans from Canada	(81)	(75)
Dividend to Canada	(126)	(1,005)
Cash provided by financing activities	2,568	1,064
Investing activities		
Additions to fixed assets	4,353	3,517
Proceeds on disposal of fixed assets	(30)	4
Cash required by investing activities	4,323	3,521
Increase (decrease) in cash and short-term investments	13,207	(1,023)
Cash and short-term investments at beginning of the year	27,066	28,089
Cash and short-term investments at end of the year	40,273	27,066

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988

1. Canada Ports Corporation Act

Canada Ports Corporation is established under the Canada Ports Corporation Act. The Act provides for the establishment of local port corporations to manage and operate selected ports. The Corporation is named in Part II of Schedule III of the Financial Administration Act and is exempt from income tax.

2. Significant accounting policies

(a) Financial statements

The financial statements of the Corporation include the accounts of all the ports and other facilities under its administration. The activities of the local port corporations are excluded from the financial statements from the date of their establishment.

(b) Investments

The investments are shown at amortized cost whereby premiums or discounts from par value are amortized over the periods to maturity.

(c) Investment in Ridley Terminals Inc.

The investment in Ridley Terminals Inc. is accounted for on the equity basis.

(d) Fixed assets

Fixed assets are recorded at cost except for those transferred to the Corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

Depreciation is calculated on the straight-line basis for the full year, commencing with the year the asset becomes operational, using rates based on the estimated useful lives of the assets.

(e) Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis.

(f) Grants in lieu of municipal taxes

The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the Municipal Grants Act. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

(g) Employee benefits

The Corporation accrues in its accounts the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees under its collective agreements, or in accordance with its policy.

3. Investments

Investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. As at December 31, 1988, and 1987, the market value of the current investments approximates their amortized cost. At December 31, 1988, the market value of the long-term investments is $20,232,000 ($20,248,000 in 1987).

CANADA PORTS CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988—*Continued*

4. Investment in Ridley Terminals Inc.

Ridley Terminals Inc. ("RTI") was incorporated on December 18, 1981, under the Canada Business Corporations Act for the purpose of constructing and operating coal terminal facilities on Ridley Island in Prince Rupert, British Columbia. RTI is exempt from income taxes.

RTI's throughput revenue is currently dependent upon the production of two coal producers. The coal producer who currently ships the larger tonnage through RTI's facilities has entered into a price arbitration process with its customers. The results of this arbitration process could have a significant economic impact on the coal producer, which in turn could affect the relations of RTI with this customer. The continued operations of RTI and the current carrying value of its terminal facility are dependent on a viable level of coal throughput from its customers and continued financial suppport from the Government of Canada.

At December 31, 1988, the Corporation had acquired, at a cost of $23,021,400, 90% of the issued common shares ($900) and 100% of the Class A preference shares ($23,020,500) of RTI. As of that date, Fednav Limited had acquired, at a cost of $23,020,600, 10% of the issued common shares ($100) and 100% of the Class B preference shares ($23,020,500) of RTI.

The Class A preference shares carry a fixed cumulative dividend at a rate of 18% per annum on their stated value. The Class B preference shares carry a fixed cumulative dividend at a rate sufficient to net 20% after tax per annum on their stated value. The annual dividend of 20% on the Class B preference shares is a net sum after deducting an amount equal to the prevailing aggregate federal and provincial corporate income and profits taxes applicable to the dividend.

Holders of the Class A and B preference shares are entitled to interest at the respective dividend rates on dividends accrued but not paid. Unpaid interest compounds annually at the same respective rates. Interest has accrued since April 30, 1982. The preference shares are redeemable at any time at their stated value plus accrued dividends and unpaid interest thereon. Preference dividends and related interest in arrears at December 31, 1988, calculated at tax rates prevailing as at that date with respect to the Class B shares amount to:

	1988	1987
	(in thousands of dollars)	
Class A preference shares held by Canada Ports Corporation	37,452	27,835
Class B preference shares held by Fednav Limited	81,853	65,847
	119,305	93,682

The Corporation's investment in RTI is accounted for on the equity basis. Application of this method for years in which RTI has a deficit requires that the Corporation recognize a share of the results of operations of RTI equal to its participation in the total equity of RTI which, at December 31, 1988, was 50%. For years in which RTI has retained earnings, the Corporation's share of the results of operations will be proportionate to its shareholding in common shares, after recognizing the dividend requirements of the two classes of preference shares.

The investment in Ridley Terminals Inc. is composed of:

	1988	1987
	(in thousands of dollars)	
Balance at beginning of the year	7,465	11,459
Share in loss	(4,382)	(3,994)
Balance at end of the year	3,083	7,465

In 1987, RTI has negotiated a reduction of $644,000 in the property tax assessment for 1985. The Corporation's retained earnings as at January 1, 1987, have been adjusted by $322,000 representing its 50% share of the amount received.

A summary of the balance sheet of RTI as at December 31, as reported in its audited financial statements shows:

	1988	1987
	(in thousands of dollars)	
Assets		
Current	4,772	1,786
Fixed	213,311	219,245
Other	67	75
	218,150	221,106
Liabilities		
Current	3,481	1,387
Long-term debt	207,323	203,608
	210,804	204,995
Equity	7,346	16,111
	218,150	221,106

RTI has two long-term financing agreements with a major Canadian bank as follows:

(a) A construction credit loan agreement which is guaranteed unconditionally by Canada and is further secured by a $250,000,000 subordinate fixed and floating charge collateral demand debenture. On July 1, 1985, all borrowings converted to a fifteen year term loan with specified semi-annual repayments commencing July 31, 1991 through January 31, 2000. Interest on any bank loan is at the bank's prime rate, payable monthly. The Bankers' Acceptance fee is currently 1/2% per annum.

(b) A revolving credit loan agreement which provides an $80,000,000 credit facility for advances on a revolving basis until June 30, 1989 at which time all borrowings will convert to a term loan repayable in specified semi-annual instalments commencing July 31, 1989 through January 31, 1992. Interest on the bank loans is at the bank's prime rate plus 1/4% per annum, payable monthly. The Bankers' Acceptance fee is currently 3/4% per annum.

This agreement is secured by a $350,000,000 first fixed and floating charge collateral demand debenture with the terminal facility as security and an assignment of the lease from the Prince Rupert Port Corporation.

CANADA PORTS CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988—*Continued*

As at December 31, 1988, drawings under these agreements were as follows:

	1988	1987
	(in thousands of dollars)	
(a) Construction credit loan agreement—		
Bankers' acceptances, net of unamortized interest charges	198,818	198,625
(b) Revolving credit loan agreement—		
Bank loans	1,800	1,000
Bankers' acceptances, net of unamortized interest charges	7,930	3,983
	9,730	4,983
	208,548	203,608
Less: current portion of long-term debt	1,225	
	207,323	203,608

Based on the amounts borrowed under the credit facilities as at december 31, 1988, annual principal repayments over the next five years amount to $1,225,000 in 1989, $3,185,000 in 1990, $8,662,500 in 1991, $11,690,000 in 1992 and $14,962,500 in 1993.

The results of operations of RTI for the year ended December 31, 1988, in comparison with the year ended December 31, 1987, are as follows:

	1988	1987
	(in thousands of dollars)	
Revenue from operations	30,676	27,625
Operating and administrative expenses	12,675	11,736
Depreciation	6,746	6,530
Interest expense	20,020	17,348
	39,441	35,614
Net loss	(8,765)	(7,989)

5. Debentures of Saint John Harbour Bridge Authority

The Saint John Harbour Bridge Authority ("the Authority") is indebted in the amount of $13,921,000 (1987—$14,041,000) to the Corporation which in turn is indebted to Canada in the same amount, in accordance with the provisions of Vote L106B, Appropriation Act No. 7, 1967, 1967-68, c. 8. The interest and repayment terms of the parliamentary advances to the Corporation are identical to those of the debentures of the Authority. Under the terms of the agreement between Canada and the Authority, Canada, in effect, has guaranteed the repayment of both principal and interest on the debentures. Accordingly, the debentures received have been offset against the advances and loans payable to Canada such that they are not reflected as an asset and a liability on the balance sheet. Interest income and expense of $955,000 (1987—$964,000) have been similarly offset and do not appear in the statement of income and retained earnings.

On July 9, 1981, the Treasury Board agreed to the transfer of the responsibility for the administration of the indebtedness of the Authority as well as the equivalent loan payable to Canada from the accounts of the Corporation to those of Transport Canada. As at December 31, 1988, Transport Canada has not completed the transfer.

6. Fixed assets

(a) Summary

		1988			1987
	Depreciation rates	Cost	Accumulated depreciation	Net	Net
	%	(in thousands of dollars)			
Land		4,426		4,426	4,419
Dredging	2.5-6.7	9,489	5,688	3,801	4,112
Berthing structures	2.5-10	34,542	16,978	17,564	18,003
Buildings	2.5-10	15,778	11,937	3,841	4,054
Utilities	3.3-10	2,811	1,345	1,466	1,531
Roads and surfaces	2.5-10	2,273	1,597	676	705
Machinery and equipment	5-100	18,864	15,059	3,805	4,209
Office furniture and equipment	20	3,080	2,471	609	320
Works under construction		706		706	656
		91,969	55,075	36,894	38,009

(b) Capital grants

During the year, the Corporation received capital grants totalling $2,775,000 (1987—$2,144,000) towards the construction of fixed assets.

(c) Capital expenditure commitments

Contractual obligations for the completion, construction and purchase of fixed assets are estimated at $2,077,000, of which most will be expended in the year ending December 31, 1989.

7. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities are deferred revenues for $467,000 (1987—$144,000) and current portion of long-term liabilities for $81,000 (1987—$75,000).

8. Due to Canada

During the year, the Treasury Board authorized that the dividend payments to be made in 1988 and 1989 by Canada Ports Corporation and the local port corporations, be used to establish an interport loan fund. This fund will be administered by the Corporation and will assist in providing financing of capital projects of the Ports Canada corporations.

As at December 31, 1988, the Corporation held $12,668,000 representing the dividend payments made in 1988 and interest earned thereon, pending approval by Canada of the establishment of the interport loan fund in 1989. The funds have been invested in direct and guaranteed securities of Canada and are included in the current investments on the balance sheet of the Corporation.

CANADA PORTS CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988—*Concluded*

9. Loans from Canada

	1988	1987
	(in thousands of dollars)	
Loans bearing interest at 6.44% and 9.09%, repayable in blended annual instalments of principal and interest of $193,000 and maturing on December 31, 2000	1,487	1,562
Less: current portion	(81)	(75)
	1,406	1,487

Principal repayment requirements over the next five years amount to $81,000 in 1989, $87,000 in 1990, $93,000 in 1991, $100,000 in 1992 and $108,000 in 1993.

10. Contingencies

Claims aggregating approximately $1,897,000 in respect of lawsuits, guarantees, employee agreements, damages allegedly suffered on the Corporation's property and sundry other matters in dispute have been received by the Corporation but are not reflected in the accounts. In the opinion of the Corporation, the final outcome of such claims should not result in any material financial liability.

The Corporation assumes substantially all risks against fire and general perils, as well as for workers'compensation claims. Any costs arising from these risks are recorded in the accounts in the year they can be reasonably estimated.

SUMMARY PAGE

CANADA POST CORPORATION

MANDATE

To operate a postal service on a self-sustaining financial basis while providing a standard of service that will meet the needs of Canadians.

BACKGROUND

The *Canada Post Corporation Act* requires the corporation to fulfill its mandate while "improving and extending its products and services," having regard to "the need to conduct its operations on a self-sustaining financial basis." The corporation is also called upon to manage its human resources "in a manner that will both attain the objects of the corporation and ensure the commitment and dedication of its employees." Canada pays subsidies to the corporation in support of the publishing industry, for Northern parcel mails, parliamentary free mail, and blind persons' free mail. The corporation does not now receive operating subsidies from Canada.

CORPORATION DATA

HEAD OFFICE	Sir Alexander Campbell Building Confederation Heights Ottawa, Ontario K1A 0B1
STATUS	— Schedule III, Part II (since June 1, 1989) — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Harvie Andre, P.C., M.P.
DEPARTMENT	Industry, Science and Technology
YEAR AND MEANS OF INCORPORATION	1981; by the *Canada Post Corporation Act* (R.S.C. 1985, c. C-10), proclaimed October 16, 1981.
CHIEF EXECUTIVE OFFICER	Donald H. Lander
CHAIRMAN	Sylvain Cloutier
AUDITOR	Maheu Noiseux and the Auditor General of Canada

FINANCIAL SUMMARY ($ million) Financial year ending March 31.

	1989	**1988**	**1987**	**1986**
At the end of the period				
Total Assets	2,734	2,574	2,629	2,451
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	80	nil	nil	nil
Equity of Canada	1,643	1,612	1,598	1,576
Cash from Canada in the period				
— budgetary*	nil	191	232	184
— non-budgetary	80	nil	nil	nil

* Budgetary amounts do not include payments for cultural and special mails.

CANADA POST CORPORATION

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management and the Board of Directors are responsible for the financial statements and all other information presented in this annual report in accordance with the Financial Administration Act and regulations. The financial statements have been prepared by management in accordance with generally accepted accounting principles and, where appropriate, include amounts based on management's estimates and judgement.

Management has developed and maintains books of account, records, financial and management control and information systems and management practices. These are designed to provide reasonable assurance as to the reliability of financial information, that assets are safeguarded and controlled, and that transactions are in accordance with the Financial Administration Act and regulations as well as the Canada Post Corporation Act and by-laws of the Corporation. Internal audits are conducted to assess these systems and practices.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control through the Audit Committee, which is composed of five directors, four of whom are not employees of the Corporation. The Audit Committee meets quarterly to oversee the internal audit activities of the Corporation and at least annually to review and advise the Board of Directors with respect to the financial statements and the auditors' annual report.

The Corporation's external auditors, the Auditor General of Canada and Maheu Noiseux, examine the financial statements and report to the Minister responsible for Canada Post Corporation.

AUDITORS' REPORT

TO THE MINISTER RESPONSIBLE
FOR CANADA POST CORPORATION

We have examined the balance sheet of Canada Post Corporation as at March 31, 1989 and the statements of equity of Canada, operations and extraordinary restructuring costs and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1989 and the result of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Canada Post Corporation Act and the by-laws of the Corporation.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Maheu Noiseux
Chartered Accountants

Ottawa, Canada
June 2, 1989

BALANCE SHEET MARCH 31, 1989
(in thousands of dollars)

ASSETS	1989	1988
Current assets		
Cash and short-term investments	624,600	603,426
Accounts receivable	77,216	55,700
Prepaid expenses	40,093	46,343
	741,909	705,469
Fixed assets (Note 3)	1,649,575	1,528,214
Other assets		
Segregated cash and investements (Note 4 (a))	41,094	
Deferred employee termination benefits	301,309	391,844
Collection of postal memorabilia (Note 5)	1	1
	342,404	391,845
	2,733,888	2,625,528

LIABILITIES AND EQUITY OF CANADA	1989	1988
Current liabilities		
Accounts payable and accrued liabilities	270,198	209,715
Salaries and benefits	185,399	187,148
Deferred revenues	167,980	160,106
Outstanding money orders	48,584	64,597
	672,161	621,566
Long-term debt (Note 6)	80,000	
Employee termination benefits (Note 4 (b))	339,122	391,844
EQUITY OF CANADA		
Contributed capital	1,943,425	1,943,425
Accumulated losses from operations	(13,876)	(110,063)
Accumulated extraordinary restructuring costs, recoverable in future postal rates	(286,944)	(221,244)
	1,642,605	1,612,118
	2,733,888	2,625,528

Contingent liabilities (Note 7)

Approved by the Board:

SYLVAIN CLOUTIER
Chairman of the Board

A. E. DOWNS
Member, Audit Committee

CANADA POST CORPORATION—*Continued*

STATEMENT OF EQUITY OF CANADA
YEAR ENDED MARCH 31
(in thousands of dollars)

	1989	1988
Contributed capital		
At beginning of year	1,943,425	1,739,388
Parliamentary appropriation for capital and extraordinary restructuring costs		204,037
At end of year	1,943,425	1,943,425
Accumulated losses from operations		
At beginning of year	(110,063)	(102,300)
Income (loss) from operations after amortization of extraordinary restructuring costs	96,187	(37,763)
Government funding		30,000
At end of year	(13,876)	(110,063)
Accumulated extraordinary restructuring costs, recoverable in future postal rates		
At beginning of year	(221,244)	(38,748)
Additions during the year	(123,529)	(190,246)
Amortization for the year	57,829	7,750
At end of year	(286,944)	(221,244)
Equity of Canada	1,642,605	1,612,118

STATEMENT OF OPERATIONS AND EXTRAORDINARY RESTRUCTURING COSTS
YEAR ENDED MARCH 31
(in thousands of dollars)

	1989	1988
Revenue from postal operations		
Postal revenue	3,160,623	2,886,888
Payments on behalf of postal users	250,593	251,593
	3,411,216	3,138,481
Cost of postal operations		
Salaries and benefits	2,324,031	2,268,485
Transportation	341,417	331,854
Accommodation	197,395	187,585
Depreciation	100,603	92,925
Other	349,694	287,562
	3,313,140	3,168,411
Income (loss) from postal operations	98,076	(29,930)
Other income		
Interest	68,086	70
Gain (loss) on disposal of fixed assets	29,332	(46)
	97,418	24
Other expense		
Interest	7,315	107
Amortization of deferred employee termination benefits	34,163	
	41,478	107
Income (loss) from operations	154,016	(30,013)
Amortization of extraordinary restructuring costs	57,829	7,750
Income (loss) from operations after amortization of extraordinary restructuring costs	96,187	(37,763)
Extraordinary restructuring costs, recoverable in future postal rates	123,529	190,246

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED MARCH 31
(in thousands of dollars)

	1989	1988
Operating activities		
Income (loss) from operations	154,016	(30,013)
Items not requiring cash		
Depreciation	100,603	92,925
(Gain) loss on disposal of fixed assets	(29,332)	46
Amortization of deferred employee termination benefits	34,163	
Accrued employee termination benefits	22,155	22,180
	281,605	85,138
Government funding		30,000
Change in non-cash working capital items	35,329	(38,625)
	316,934	76,513
Extraordinary restructuring activities		
Extraordinary restructuring costs, recoverable in future postal rates	(123,529)	(190,246)
Financing activities		
Long-term debt	80,000	
Employee termination benefit payments	(18,505)	(22,180)
Parliamentary appropriation for capital and extraordinary restructuring costs		204,037
	61,495	181,857
Investment activities		
Acquisition of fixed assets	(244,144)	(120,934)
Parliamentary appropriation for special purposes	327	106
Proceeds on disposal of fixed assets	51,185	482
Increase in segregated cash and investments	(41,094)	
	(233,726)	(120,346)
Increase (decrease) in cash and short-term investments	21,174	(52,222)
Cash and short-term investments at beginning of year	603,426	655,648
Cash and short-term investments at end of year	624,600	603,426

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989

1. Incorporation

The Corporation was established by the Canada Post Corporation Act on October 16, 1981 to operate a postal service on a self-sustaining financial basis while providing a standard of service that will meet the needs of the people of Canada. The Corporation is a Crown corporation included in Part I of Schedule III to the Financial Administration Act and is an agent of Her Majesty. The Corporation is exempt from income taxes.

The Canada Post Corporation Act provided that all the property, assets, rights, obligations and liabilities of the Post Office Department be transferred to the Corporation from the Government of Canada.

CANADA POST CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989—*Continued*

2. Significant accounting policies

These financial statements have been prepared in accordance with generally accepted accounting principles. A summary of the significant accounting policies of the Corporation follows:

(a) Rate regulation

The Canada Post Corporation Act provides that the Corporation may make regulations prescribing rates of postage that are fair and reasonable so as to provide revenue together with any revenue from other sources, sufficient to defray the costs incurred by the Corporation in the conduct of its operations. The Corporation is required to publish each proposed regulation for interested persons to make representations to the Minister responsible for the Corporation, who thereafter submits the regulation to the Governor in Council for consideration and subsequent approval or refusal.

With the approval of the Governor in Council, as rate regulator, the Corporation may include certain costs in its future operating cost base for purposes of establishing postal rates at that time. Such costs are amortized and recovered in future postal rates on the basis specified by the rate regulator.

(b) Fixed assets and depreciation

Land, buildings and equipment transferred from the Government of Canada on October 16, 1981 were recorded at their fair value at that date, determined as follows:

Land	—Market value based on existing use
Buildings	—Depreciated replacement cost
Plant equipment, vehicles, and sales counter and office furniture and equipment	—Depreciated replacement cost or original cost less estimated depreciation

The market value of land and the depreciated replacement cost of buildings transferred by the Government of Canada was determined by independent appraisals. Acquisitions subsequent to October 16, 1981 are recorded at cost.

Minor equipment was recorded at estimated depreciated replacement cost at October 16, 1981. Subsequent additions to the base amount are recorded at cost. Replacement of mail bags and lock boxes are expensed as purchased.

Depreciation is provided on the straight-line basis over the estimated useful lives of the following assets:

Buildings	30 and 40 years
Plant equipment	4 to 30 years
Vehicles (other than passenger and light duty commercial)	6 to 10 years
Sales counter and office furniture and equipment	5 to 20 years
Minor equipment—Street furniture and monotainers	5 to 15 years

Depreciation is provided on the diminishing balance basis at an annual rate of 30 per cent for all passenger and light duty commercial vehicles.

(c) Employee termination benefits

Employees of the Corporation are entitled to specified termination benefits, calculated at salary levels in effect at the time of termination, as provided under collective agreements and conditions of employment.

The present value of the projected costs of unpaid employee termination benefits, as determined by actuarial valuation, is recorded in the accounts as a long-term liability.

Employee termination benefits accruing to employees for current service are charged to current operations.

With the approval of the rate regulator, the Corporation deferred the costs of unpaid employee termination benefits accruing to employees for service prior to April 1, 1988. Such costs are to be recovered from future postal rates. The deferred costs are amortized and charged to operations over the fifteen-year average remaining service life of employees.

(d) Revenue recognition

Amounts received for which services have not been rendered prior to the end of the year are deferred.

(e) Payments on behalf of postal users

Where Government policy requires the Corporation to provide services to certain postal users at rates less than cost, such as to the publications industry, and for Government free mail, literature for the blind and northern air stage services, the Government of Canada compensates the Corporation for foregone postage revenue from those sources. Payments received are credited to operations in the year to which they relate.

(f) Parliamentary appropriations

Parliamentary appropriations representing Government contributions, if received, are credited to equity of Canada when costs are incurred. However, when capital items are funded under a Government assistance program, the funding is applied to reduce the capital cost. Unexpended amounts are set up as a current liability due to the Government of Canada.

Parliamentary appropriations representing Government funding, if received, are credited to operations in the year to which they relate.

(g) Pension plan

Employees of the Corporation are covered by the Public Service Superannuation Plan administered by the Government of Canada. Under present legislation, contributions made by the Corporation to the Plan are limited to an amount equal to the employees' contributions on account of current service. These contributions, which amounted to $100,198,000 (1988—$96,085,000), represent the total pension obligations of the Corporation and are charged to operations on a current basis. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account and/or with respect to charges to the Consolidated Revenue Fund for indexation payments under the Supplementary Retirement Benefits Act.

(h) Extraordinary restructuring costs, recoverable in future postal rates

The Corporation has undertaken certain programs which form part of a major restructuring of the current postal system to meet specified operating and service performance standards. The costs of these programs are of an unusual, non-recurring and strategic nature.

CANADA POST CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989—*Continued*

With the approval of the rate regulator, these costs are to be recovered in future postal rates and, as such, are amortized on a straight-line basis over the ensuing five years.

Pending the amortization and recovery of such costs in future postal rates, these costs are reflected in the statement of operations and extraordinary restructuring costs as incurred, and are accumulated as a reduction of the equity of Canada.

In the event that the Corporation determines there is no reasonable assurance that particular amounts will be recovered, such unrecoverable costs will be charged to current operations.

(i) Foreign currency translation

Revenues and expenses relating to transactions with foreign postal administrations are translated into Canadian dollars at the exchange rates at the time of transaction.

Amounts due to or from foreign postal administrations at the balance sheet date are translated at the then prevailing exchange rates. Gains or losses arising from translation of foreign currencies are included in operations.

3. Fixed assets

	1989			1988
	Cost or fair value	Accumulated depreciation	Net	Net
	(in thousands of dollars)			
Land	238,953		238,953	241,889
Buildings	1,089,662	274,748	814,914	817,336
Plant equipment	478,318	198,759	279,559	266,043
Vehicles	107,303	52,336	54,967	41,390
Minor equipment				
Mail bags and lock boxes	24,325		24,325	24,325
Street furniture and monotainers	113,462	23,726	89,736	56,239
Sales counter and office furniture and equipment	188,580	41,459	147,121	80,992
	2,240,603	591,028	1,649,575	1,528,214

4. Employee termination benefits

(a) Segregated cash and investments

The Corporation has segregated certain cash and investments for the purpose only of managing cash flows relating to the employee termination benefits liability.

(b) Employee termination benefits liability

At the time of incorporation on October 16, 1981, the Corporation assumed the liability related to termination benefits which had accrued to employees of the Post Office Department. In addition, the Corporation recognizes in the accounts the liability for benefits accruing to employees of the Corporation since October 16, 1981. The present value of these projected liabilities at March 31, amounted to:

	1989	1988
	(in thousands of dollars)	
Accumulated to October 16, 1981	181,265	222,937
Accumulated subsequent to October 16, 1981	157,857	168,907
	339,122	391,844

5. Collection of postal memorabilia

During the year, the Corporation entered into an agreement with both the National Archives of Canada and the Canadian Museum of Civilization to operate, administer and maintain a Canadian Postal Archives and a National Postal Museum respectively, containing philatelic material, postal artifacts, a postal library and exhibits that trace the history of the mail and other memorabilia. Since these collections, exhibits and books are not for resale and are of undetermined value, they have been recorded at a nominal amount of $1,000.

6. Long-term debt

During the year, the Corporation entered into a ten-year $80 million loan with the Government of Canada. Interest is payable semi-annually at the rate of 9.705% per annum, and the principal will be repaid on April 27, 1998. Interest expense on long-term debt was $7,200,000 (1988—nil).

7. Contingent liabilities

(a) A complaint has been filed with the Canadian Human Rights Commission, alleging discrimination by the Corporation concerning work of equal value. The Commission's investigation of this complaint is continuing and the outcome is not presently determinable. Settlement, if any, arising from resolution of this matter will be recovered in future postal rates (as determined in accordance with the Canada Post Corporation Act) and/or from the Government of Canada.

(b) Employees are permitted to accumulate unused sick leave. However, such leave entitlements do not vest and are dependent on future illness. The amount of accumulated sick leave entitlements which will become payable cannot reasonably be determined. Sick leave benefits are expensed as paid.

8. Lease commitments

The Corporation occupies certain facilities under operating leases which expire at various dates between 1990 and 2059. The Corporation's future minimum rental payments required under operating leases that have terms in excess of one year, are as follows:

	(in thousands of dollars)
1990	47,192
1991	38,551
1992	30,494
1993	24,144
1994	17,359
1995 to 2059	29,170
	186,910

CANADA POST CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989—*Concluded*

9. Related party transactions

The Corporation had the following transactions with related parties in addition to those disclosed elsewhere in these financial statements.

(a) Property management

The Corporation has a property management arrangement with the Department of Public Works to manage substantially all the Corporation's real property. Operating, maintenance, leasing and other accommodation costs including grants in lieu of taxes, incurred by the Department of Public Works, plus a management fee charged to operations amounted to $186,208,000 (1988—$181,259,000). Rental income from third parties of $7,116,000 (1988—$8,129,000) is included in postal revenue. Capital expenditures including a management fee amounted to $32,736,000 (1988—$33,452,000).

(b) Interest

The Corporation earned interest in the amount of $23,747,000 (1988—nil) on its balance in the Consolidated Revenue Fund of the Government of Canada.

(c) Other

In the normal course of business, the Corporation enters into various other transactions with the Government of Canada, its agencies and other Crown corporations. These include the provision of postal services, the purchase of air and rail transportation and the receipt of payments on behalf of postal users.

As a result of all the above transactions, the amounts due from and to these parties are $4,725,000 (1988—$9,759,000) and $101,056,000 (1988—$102,504,000) respectively.

10. Comparative figures

Comparative figures have been reclassified to conform with the current year's presentation.

SUMMARY PAGE

CANADIAN BROADCASTING CORPORATION

MANDATE

Develop and provide a national broadcasting service for all Canadians in both official languages, in television and radio, and an international service, all of which should be predominantly Canadian in content and character.

BACKGROUND

Established in 1936 by the *Broadcasting Act*; major amendments were made to this Act in 1958 and 1968. Today, about 28 percent of the corporation's revenues is from advertising.

CORPORATION DATA

HEAD OFFICE	1500 Bronson Avenue P.O. Box 8478 Ottawa, Ontario K1G 3J5
STATUS	— an agent of Her Majesty — exempted from Divisions I to IV of Part X of the *Financial Administration Act*; subject to Part VIII of this Act as it read immediately before the 1984 repeal thereof.
APPROPRIATE MINISTER	The Honourable Marcel Masse, P.C., M.P.
DEPARTMENT	Communications
YEAR AND MEANS OF INCORPORATION	1936, by the *Broadcasting Act* (R.S.C. 1985, c. B-9).
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	William Armstrong
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) Financial year ending March 31.

	1989	1988	1987	1986 (restated)
At the end of the period				
Total Assets	869	799	755	731
Obligations to the private sector	4	6	1	nil
Obligations to Canada	33	33	33	33
Equity of Canada	552	508	461	448
Cash from Canada in the period				
— budgetary	915	888	855	857
— non-budgetary	nil	nil	nil	nil

CANADIAN BROADCASTING CORPORATION

AUDITOR'S REPORT

TO THE CANADIAN BROADCASTING CORPORATION
AND THE MINISTER OF COMMUNICATIONS

I have examined the balance sheet of the Canadian Broadcasting Corporation as at March 31, 1989 and the statements of income and expense and reconciliation to government funding basis, proprietor's equity account and cash flow for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, proper books of account have been kept by the Corporation, the financial statements are in agreement therewith and the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with the former Part VIII of the Financial Administration Act and regulations as they apply to the Corporation, the Broadcasting Act and the by-laws of the Corporation.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
June 9, 1989

BALANCE SHEET AS AT MARCH 31, 1989
(in thousands of dollars)

ASSETS	1989	1988
Current		
Cash and treasury bills	21,958	17,638
Accounts receivable	74,453	74,741
Engineering and production supplies and merchandise	11,362	12,400
Programs completed and in process of production	88,679	69,916
Prepaid film and script rights and other expenses	32,749	23,609
	229,201	198,304
Fixed assets (Note 3)	631,534	592,229
Deferred charges (Note 4)	8,444	8,904
	869,179	799,437

LIABILITIES	1989	1988
Current		
Accounts payable and accrued liabilities	128,640	110,261
Accrued vacation pay	50,070	46,016
	178,710	156,277
Long-term		
Employee termination benefits	103,704	99,085
Advances from Government of Canada (Note 5)	33,000	33,000
Obligations under capital leases (Note 6)	1,831	3,482
	138,535	135,567
PROPRIETOR'S EQUITY		
Proprietor's equity account	551,934	507,593
	869,179	799,437

The accompanying notes and schedule A are an integral part of the financial statements.

Approved on behalf of the Board of Directors:

STEVE COTSMAN
Vice-President, Finance

PIERRE JUNEAU
Director

ROBERT KOZMINSKI
Director

CANADIAN BROADCASTING CORPORATION—*Continued*

STATEMENT OF INCOME AND EXPENSE AND RECONCILIATION TO GOVERNMENT FUNDING BASIS FOR THE YEAR ENDED MARCH 31, 1989
(in thousands of dollars)

	1989	1988
Income		
Advertising	329,979	295,546
Miscellaneous	33,067	30,155
Parliamentary operating appropriation (Note 7)	810,368	792,266
	1,173,414	1,117,967
Expense		
National Broadcasting Service (see schedule A)	1,067,815	1,005,448
Radio Canada International, broadcasting service	19,631	18,840
Corporate engineering services	8,158	9,422
Corporate management and services	49,620	48,341
Commissions to agencies	45,151	41,242
Selling and merchandising	45,904	42,761
	1,236,279	1,166,054
Excess of expense over income before income tax and extraordinary item	62,865	48,087
Income tax (Note 8)	210	3,139
Excess of expense over income before extraordinary item	63,075	51,226
Extraordinary item, income tax reduction (Note 8)	(210)	(3,139)
Excess of expense over income	62,865	48,087
Reconciliation to government funding basis		
Deduct: net items not requiring current operating funds (Note 7)	65,099	62,611
Surplus for the year	2,234	14,524
Surplus (deficit), beginning of the year	4,333	(10,191)
Surplus, end of year	6,567	4,333

The accompanying notes and schedule A are an integral part of the financial statements.

SCHEDULE OF NATIONAL BROADCASTING SERVICE FOR THE YEAR ENDED MARCH 31, 1989
(in thousands of dollars) SCHEDULE A

	1989	1988
Program activities		
English language		
Radio		
Network	48,206	46,905
Regional contributions to network	21,042	19,288
Regional	62,490	58,371
Television		
Network	270,022	255,235
Regional contributions to network	53,177	43,372
Regional	112,861	113,922
French language		
Radio		
Network	42,237	40,027
Regional contributions to network	7,462	6,382
Regional	31,473	30,027
Television		
Network	194,198	181,482
Regional contributions to network	16,679	14,429
Regional	52,138	50,383
	911,985	859,823
Distribution activities		
Radio		
Network distribution	22,286	20,567
Station transmission	19,406	17,608
Television		
Network distribution	76,958	71,200
Station transmission	21,798	20,736
Payments to private stations	15,382	15,514
	155,830	145,625
	1,067,815	1,005,448

The accompanying notes are an integral part of the financial statements.

STATEMENT OF PROPRIETOR'S EQUITY ACCOUNT FOR THE YEAR ENDED MARCH 31, 1989
(in thousands of dollars)

	1989	1988
Balance, beginning of year	507,593	460,481
Add (Deduct)		
Parliamentary capital appropriations (Note 7)	100,881	91,344
Parliamentary working capital appropriation (Note 7)	4,000	4,000
Gain (loss) on disposal of assets	2,325	(145)
Surplus for the year	2,234	14,524
Net items not requiring current operating funds (Note 7)	(65,099)	(62,611)
Balance, end of year	551,934	507,593

The accompanying notes and schedule A are an integral part of the financial statements.

CANADIAN BROADCASTING CORPORATION—*Continued*

STATEMENT OF CASH FLOW
FOR THE YEAR ENDED MARCH 31, 1989
(in thousands of dollars)

	1989	1988
Operating activities		
Excess of expense over income before extraordinary item	(63,075)	(51,226)
Items not involving cash		
Depreciation and amortization	61,539	54,732
Employee termination benefits	4,619	3,730
Extraordinary item—Income tax reduction	210	3,139
Net change in non-cash working capital balances (Note 9)	(3,902)	(515)
	(609)	9,860
Financing activities		
Parliamentary capital appropriations	100,881	91,344
Proceeds on disposal of assets	4,353	1,191
Capital lease obligations assumed	126	6,453
Parliamentary working capital appropriation	4,000	4,000
	109,360	102,988
Investing activities		
Acquisition of fixed assets	(102,746)	(89,621)
Capital portion of lease payments	(2,019)	(2,164)
Equipment acquired under capital leases	(126)	(6,453)
Newsworld development costs deferred	(1,301)	
	(106,192)	(98,238)
Deferred: pension contribution	1,761	(8,904)
Increase in cash and treasury bills	4,320	5,706
Cash and treasury bills, beginning of year	17,638	11,932
Cash and treasury bills, end of year	21,958	17,638

The accompanying notes and schedule A are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989

1. Authority and objective

The Canadian Broadcasting Corporation was established by the 1936, 1958 and 1968 Broadcasting Acts. The Corporation is an agent of Her Majesty and all property acquired by the Corporation is the property of Her Majesty.

The objective of the Corporation is to develop and provide a national broadcasting service for all Canadians in both official languages, in television and radio, and to provide an international service. The television and radio services should be primarily Canadian in content and character.

2. Significant accounting policies

(a) Engineering and production supplies and merchandise

The inventory of engineering and production supplies is stated at the lower of average cost and replacement cost. The inventory of merchandise is stated at the lower of cost and net realizable value.

(b) Programs completed and in process of production

Programs completed and in process of production are stated at cost. Cost includes the cost of goods and services, and the share of labour and overhead expenses applicable to each program.

Program costs are charged to operations as the programs are broadcast or deemed unusable.

(c) Film rights

The Corporation enters into contracts for film broadcasting rights. As payments are made under the terms of each contract they are reflected in the accounts as prepaid film rights. The film rights are charged to operations as the films are broadcast or deemed unusable.

(d) Fixed assets

Fixed assets are recorded at cost. The cost of assets constructed by the Corporation includes material, engineering services, direct labour and related overhead. Depreciation is calculated on the straight-line method using rates based on the estimated useful life of the assets as follows:

Buildings	33 years
Technical equipment	
Transmitters and towers	20 years
Other	10 years
Furnishings and office equipment	10 years
Automotive	5 years
Computers	5 years

Major leasehold improvements are capitalized and amortized over the term of the leases to a maximum period of five years. Amounts included in uncompleted capital projects are transferred to the appropriate fixed asset classification upon completion, and are then depreciated according to the Corporation's policy. Gains and losses on disposals of fixed assets are credited or charged to Proprietor's Equity Account.

(e) Capital leases

Assets recorded as capital leases are amortized on the straight-line method over the estimated useful life of the assets or the lease term as appropriate. Obligations recorded under the capital leases are reduced by lease payments net of imputed interest.

(f) Pension cost and obligation

The Corporation provides pensions based on length of service and final average earnings as classified under defined benefit pension plans.

The cost of pension benefits earned by employees is determined using the projected benefit method of actuarial valuation with projected salary increases where appropriate, pro-rated on services and charged to expense as services are rendered. This cost reflects management's best estimate of the pension fund's expected investment yields, and of salary escalations, mortality of members, terminations and ages at which members will retire. The surplus on the introduction of this accounting policy, adjustments arising from plan amendments, experience gains and losses and changes in assumptions are amortized over the estimated average remaining service life of the employee group.

The difference between the accumulated amounts expensed and the funding contributions is reflected in the balance sheet as a long term deferred charge or accrual as the case may be.

(g) Employee termination benefits and vacation pay

Employee termination benefits and vacation pay are expensed as benefits accrue to employees under their respective terms of employment.

(h) Parliamentary appropriations

Parliamentary appropriations for operating expenditures are recorded as income. Parliamentary appropriations for capital and working capital are credited to Proprietor's Equity Account.

CANADIAN BROADCASTING CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989—*Continued*

3. Fixed assets

	1989			1988
	Cost	Accumulated depreciation and amortization	Net book value	Net book value
	(in thousands of dollars)			
Land	35,384		35,384	35,387
Buildings	266,677	116,630	150,047	148,502
Technical equipment	689,215	351,447	337,768	321,109
Furnishings, office equipment and computers	34,795	11,864	22,931	19,594
Automotive	13,730	9,607	4,123	4,191
Leasehold improvements	8,604	6,050	2,554	682
Property under capital leases	7,583	4,401	3,182	5,137
Uncompleted capital projects	75,545		75,545	57,627
	1,131,533	499,999	631,534	592,229

The Corporation has changed the estimated useful life of computers from 10 to 5 years. This change has resulted in an increase of $5.0 million in depreciation expense for the year.

4. Deferred charges

(a) Pension expense

Effective April 1, 1987, the Corporation adopted on a prospective basis, the accounting recommendations for pension costs and obligations issued in 1986 by the Canadian Institute of Chartered Accountants.

Projections from the latest actuarial valuations show a present value of accrued pension benefits of $1,604.0 million as at March 31, 1989 (1988—$1,380.4 million). Market related values have been used for valuing pension fund assets which based on financial information as at March 31, 1989 are valued at $1,688.5 million (1988—$1,521.8 million).

The deferred charge at March 31, 1989 amounts to $7.1 million (1988—$8.9 million) and is the difference between the accumulated pension expense and the required funding contributions.

(b) CBC Newsworld channel

During the year, the Corporation was granted a license to operate the CBC Newsworld channel. Development costs pertaining to the undertaking amounted to $1.3 million as at March 31, 1989. These development costs will be amortized over a five year period starting in the month the service is operational.

5. Advances from Government of Canada

Advances from the Government of Canada are made for working capital purposes and are non-interest bearing. These advances become repayable when cash and treasury bills exceed the Corporation's requirements for working capital.

Working capital is determined on a government funding basis which excludes items not requiring current operating or capital funds.

6. Lease obligations

(a) As at March 31, 1989, the Corporation's obligations related to capital leases and operating leases for terms in excess of one year are as follows:

	Capital leases	Operating leases
	(in thousands of dollars)	
1990	2,045	26,746
1991	1,616	25,470
1992	423	20,322
1993	8	14,605
1994	1	11,630
1995-2061		6,611
Total future payments	4,093	105,384
Deduct: imputed interest	535	
Present value of capital lease obligation	3,558	
Deduct: current portion	1,727	
Long-term obligations under capital leases	1,831	

(b) Broadcast centre development project, Toronto

In accordance with Governor General in Council approval, the Corporation signed a project agreement, dated September 30, 1988, with Cadillac Fairview Corporation Limited, as the selected developer, for the construction of a building, on the Corporation's site in downtown Toronto, to house the Corporation's Toronto-based operations.

On October 14, 1988, the Corporation entered into a broadcast centre agreement to lease with Cadillac Fairview whereby the Corporation will, upon substantial completion of the Broadcast Centre Building, estimated to be January 1992, execute a Broadcast Centre Building lease for the building and underlying lands for an initial period of thirty-five years.

The Corporation is committed under this lease to pay rent under all circumstances and, in the event of termination of the lease, at the Corporation's option or otherwise, pay sufficient rent to repay all interim and permanent financing.

7. Parliamentary appropriations

The Corporation receives funds from the Parliament of Canada through annual appropriations. The appropriations approved and the payments received by the Corporation for 1989 and 1988 are noted below.

	1989	1988
	(in thousands of dollars)	
Appropriations		
Operating	810,368	792,266
Capital	100,881	91,344
Working capital	4,000	4,000
	915,249	887,610

CANADIAN BROADCASTING CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989—*Concluded*

The 1988 capital appropriation includes $589,000 which represented unspent accumulated capital appropriations from previous years.

The following summarizes the net items not requiring current operating funds.

	1989	1988
	(in thousands of dollars)	
Depreciation and amortization	61,539	54,732
Employee termination benefits and vacation pay	8,873	8,459
Program inventory costs	(7,074)	8,324
Deferred pension cost	1,761	(8,904)
	65,099	62,611

8. Income tax

The Corporation is a prescribed federal Crown corporation under Part LXXI of the Income Tax Regulations and is subject to the provisions of the Federal Income Tax Act. Depreciation and capital cost allowance are not allowable deductions in the determination of the Corporation's taxable income. Therefore, the Corporation may have taxable income even when there is an excess of expense over income in any year.

A reduction of income taxes arising from the use of prior years' unrecorded tax losses has been reflected in the statement of income and expense as an extraordinary item. The Corporation has accumulated losses carried forward for income tax purposes of $2.3 million which has not been recognized in the financial statements. The tax benefits pertaining to this loss carry-forward are available until 1995.

9. Changes in non-cash working capital

	1989	1988
	(in thousands of dollars)	
Cash provided (used for)		
Accounts receivable	288	(4,721)
Engineering and production supplies and merchandise	1,038	813
Programs completed and in process of production	(18,763)	13,540
Prepaid film and script rights and other expenses	(9,140)	120
Accounts payable and accrued liabilities	18,621	(13,419)
Accrued vacation pay	4,054	3,152
	(3,902)	(515)

10. Commitments

As at March 31, 1989, future year commitments for sports rights amounted to $206.9 million; procured programs, film rights and co-productions amounted to $59.1 million for total commitments of $266.0 million.

11. Contingencies

In the ordinary course of business, various claims and lawsuits have been brought against the Corporation. In the opinion of management, the losses, if any, which may result from the settlement of these matters are not likely to be material and accordingly no provision has been made in the accounts of the Corporation.

12. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations and is mainly financed by the Parliament of Canada.

During the year, transactions with these related departments, agencies and Crown corporations were in the normal course of business on normal trade terms applicable to all individuals and enterprises. Transactions with the Parliament of Canada are outlined in notes 5 and 7.

13. Allocation of expenses

The main objective of the Corporation is to develop and provide a national broadcasting service for all Canadians in both official languages, in television and radio. To achieve this objective the Corporation is involved in program and distribution activities. These activities are shown on the schedule of National Broadcasting Service (Schedule A). Program and distribution activities include the cost of goods and services, a share of labour and overhead and a share of operational management support services.

Following a major study, the Corporation refined the allocation of labour and overhead expense to its activities to fairly reflect the Corporation's current operations. As a result of the study, operational management support services were allocated on the basis of services rendered rather than being pro-rated to the components of its activities. For comparative purposes, the 1988 balance of certain expense categories in the statement of income and expense and reconciliation to government funding basis and in Schedule A have been reported on a basis consistent with the 1989 presentation. The net impact of the change on the National Broadcasting Service for 1988 resulted in a decrease in cost of $4.3 million and a corresponding increase in certain other expense categories as follows:

	Previously reported	Increase (decrease)	As currently reported
	(in thousands of dollars)		
National broadcasting service	1,009,746	(4,298)	1,005,448
Radio Canada International, broadcasting service	17,212	1,628	18,840
Corporate engineering services	8,946	476	9,422
Corporate management and services	47,586	755	48,341
Commission to agencies	41,242		41,242
Selling and merchandising	41,322	1,439	42,761
	1,166,054		1,166,054

14. Certain of the 1988 comparative figures have been reclassified to conform to the current year's presentation.

SUMMARY PAGE

CANADIAN COMMERCIAL CORPORATION

MANDATE

To assist in the development of trade between Canada and other nations.

BACKGROUND

Established in 1946, the corporation serves as prime contractor when other countries wish to purchase goods and services from Canada on a government-to-government basis. As well, it assists in sales to international agencies.

CORPORATION DATA

HEAD OFFICE	Metropolitan Life Building 50 O'Connor Street Ottawa, Ontario K1A 0S6
STATUS	— Schedule III, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P., Minister for International Trade
DEPARTMENT	External Affairs
YEAR AND MEANS OF INCORPORATION	1946; by the *Canadian Commercial Corporation Act* (R.S.C. 1985, c. C-14).
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Hugh Mullington
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) Financial year ending March 31.

	1989	**1988**	**1987**	**1986**
At the end of the period				
Total Assets	686.3	606.3	493.8	399.5
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	33.8	29.4	31.4	35.7
Cash from Canada in the period				
— budgetary	15.3	11.8	16.1	15.8
— non-budgetary	nil	nil	nil	nil

CANADIAN COMMERCIAL CORPORATION

AUDITOR'S REPORT

TO THE MINISTER FOR INTERNATIONAL TRADE

I have examined the balance sheet of the Canadian Commercial Corporation as at March 31, 1989, and the statements of operations and retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards in Canada, conforming with International Auditing Guidelines, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1989, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles in Canada, conforming with International Accounting Standards, applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Canadian Commercial Corporation Act and by-laws of the Corporation.

D. Larry Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 2, 1989

BALANCE SHEET AS AT MARCH 31, 1989
(in thousands of dollars)

ASSETS	1989	1988
Cash and short-term deposits	114,766	74,499
Accounts receivable		
Foreign governments (Note 3)	101,509	104,923
Government of Canada—Parliamentary appropriation (Note 4)	1,763	37
Defence Production Revolving Fund		760
Other	739	190
Advances to suppliers	115,498	112,765
Progress claims paid or due	352,039	313,158
	686,314	606,332

LIABILITIES	1989	1988
Accounts payable and accrued liabilities	113,742	105,291
Advances from customers	178,619	150,024
Progress payments received or due	352,671	314,681
Due to Government of Canada (Note 4)	2,096	2,119
Provision for additional costs (Note 5)	4,646	4,014
	651,774	576,129
Employee termination benefits	773	763
	652,547	576,892
EQUITY OF CANADA		
Contributed surplus	20,000	20,000
Retained earnings	13,767	9,440
	33,767	29,440
	686,314	606,332

Certified correct:

F. O. KELLY
Comptroller

Approved by the Board:

H. J. MULLINGTON
President

J. CAMILLE GALLANT
Director

CANADIAN COMMERCIAL CORPORATION—*Continued*

STATEMENT OF OPERATIONS AND RETAINED EARNINGS
FOR THE YEAR ENDED MARCH 31, 1989
(in thousands of dollars)

	1989	1988
Revenues		
Contract billings	638,974	681,601
Fees and other income	1,480	2,404
Interest income	4,844	3,674
	645,298	687,679
Expenses		
Cost of contract billings	638,974	681,601
Additional contract costs	1,167	1,213
Bad debt recovery	(11)	(15)
Services provided by Supply and Services Canada	7,914	9,360
Administrative	7,551	7,515
Legal fees and expenses (Note 6)	179	635
Other	254	11
	656,028	700,320
Cost of operations before loss on foreign exchange	10,730	12,641
Loss on foreign exchange (Note 7)	240	1,115
Net cost of operations	10,970	13,756
Parliamentary appropriation	15,297	11,808
Increase (decrease) to retained earnings	4,327	(1,948)
Retained earnings at beginning of the year	9,440	11,388
Retained earnings at end of the year	13,767	9,440

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1989
(in thousands of dollars)

	1989	1988
Financing activities		
Parliamentary appropriation		
Amount drawn down	15,297	11,808
Adjusted for decrease (increase) in receivable from Government of Canada	(1,726)	424
Cash provided by financing activities	13,571	12,232
Operating activities		
Operations		
Net cost of operations	(10,970)	(13,756)
Net changes in non-cash balance sheet items		
Operating balances from customers and to suppliers	12,695	4,828
Advances and progress claims from customers and to suppliers	24,971	8,187
Cash provided (used in) operating activities	26,696	(741)
Increase in cash and short-term deposits	40,267	11,491
Cash and short-term deposits at beginning of year	74,499	63,008
Cash and short-term deposits at end of year	114,766	74,499

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989

1. Authority and operations

The Corporation was established in 1946 by the Canadian Commercial Corporation Act and is an agent Crown Corporation listed in Part I of Schedule III to the Financial Administration Act. The Corporation is not subject to income taxes.

The Corporation acts as the prime contracting agency when other countries and international agencies wish to purchase products and services from Canada on a government-to-government basis.

Contracts are made with foreign governments and corresponding contracts are entered into with Canadian firms by the Corporation.

In December 1987, the Government rescinded the fee for service system, thus ratifying the suspension by the Minister for International Trade of December 1986.

Supply and Services Canada provides contracting services to the Corporation at predetermined rates approved by Treasury Board, based on the amounts of contracts procured, and provides certain administrative functions at cost.

2. Significant accounting policies

These financial statements are prepared in accordance with generally accepted accounting principles in Canada, consistently applied, and conform in all material respects with international accounting standards. A summary of significant policies follows:

(a) Contract billings

Revenues from contracts are recorded at the time of delivery except in the case of contracts involving progress payments; in these cases, revenues are recorded at the time the progress payments become due from customers. Since title to work-in-progress covered by progress claims has not passed to customers, the Corporation sets up a corresponding liability and cost of contract billings. The Corporation records all progress claims by its suppliers as assets. These assets and liabilities are reduced, in accordance with contract terms, as deliveries are accepted.

(b) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year-end exchange rates. Revenues and expenses are translated at the average exchange rates for the month in which the transactions occur. Gains and losses resulting from translations are shown in the statement of operations and retained earnings.

(c) Parliamentary appropriation

Parliamentary appropriation is recorded in the year in which the corresponding expenses are incurred but is drawn upon only as cash disbursements are made.

(d) Pension plan

Employees of the Corporation are covered by the Public Service Superannuation Plan administered by the Government of Canada. Under present legislation, contributions made by the Corporation to the Plan are limited to an amount equal to the employee's contributions on account of current service. These contributions represent the total pension obligations of the Corporation and are charged to operations on a current basis. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account and/or with respect to charges to the Consolidated Revenue Fund for indexation payments under the Supplementary Retirement Benefits Act.

CANADIAN COMMERCIAL CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989—*Concluded*

(e) Employee termination benefits

Employees of the Corporation are entitled to specified termination benefits, calculated at salary levels in effect at the time of termination, as provided for under collective agreements and conditions of employment. The liability for these benefits is recorded in the accounts as the benefits accrue to employees.

3. Accounts receivable from foreign governments

As at March 31, 1989, the Corporation has provided $959,000 (1988—$981,000) to cover the possible non-collection of certain accounts receivable from foreign governments.

4. Government of Canada

As at March 31, 1989, funds to cover expenses of $1,763,000 applicable to 1988-89 appropriations had not been drawn and $2,096,000 had not been paid to various government departments.

5. Contractual obligations

As at March 31, 1989, the Corporation was obligated to fulfill contracts with customers amounting to $1.313 billion (1988— $1.176 billion).

The Corporation is responsible to its customers for the performance of its suppliers and thus may incur additional contract costs on default of a supplier. A provision of $4,646,000 (1988—$4,014,000) has been made for estimated additional contract costs which may be incurred if certain suppliers are unable to meet their contractual obligations.

6. Legal fees and expenses

(a) Charged by Department of Justice

Included in the legal fees and expenses are the costs resulting from the action taken against the Corporation related to the contract referred to in Note 8(a). The costs related to this action amounted to $144,000 (1988—$635,000).

(b) Recovery of costs

On the first issue of the above mentioned action, the Court has ruled in favour of the Corporation, which will be entitled to the recovery of certain costs. The final amount is to be resolved by agreement of both parties, or alternatively by order of the Court.

7. Loss on foreign exchange

Contracts with foreign governments and corresponding contracts with Canadian suppliers are entered into in the same currency. This reduces the Corporation's exposure to gains or losses due to fluctuation in foreign exchange. The Corporation maintains some working capital in U.S. currency to facilitate the cash flow between foreign customers and Canadian suppliers. The Corporation earns income from investments of the U.S. currency working capital and, at times, may be required to incur expenses in U.S. currently for additional contract costs, should suppliers not meet their obligations under a contract. The reported loss on foreign exchange for the years ended March 31, 1988 and 1989 is mainly attributable to the change in exchange value of the currency.

8. Contingencies

(a) The Corporation has been named as defendant in a lawsuit instituted in 1975 alleging losses resulting from the termination of a portion of a contract and seeking damages of $6.8 million plus accrued interest and costs. Based on the advice of legal counsel, management is of the opinion that no provision for possible loss in respect of this suit is required.

(b) The Corporation has been named as defendant in legal proceedings instituted in 1985, alleging losses resulting from a breach of contract by the Corporation and seeking damages of $744,000. The action is being contested by the Corporation and the ultimate outcome is uncertain. A review of the facts and law by counsel indicates that there is no liability on the part of the Corporation. On the basis of that opinion, management is of the view that no provision for possible loss in respect to these proceedings is required.

9. Subsequent event—Payment to the Government of Canada

On April 14, 1989, the Board of Directors approved the payment of $865,400 to the Government of Canada. The Corporation considers that this amount will not be required for future operations.

SUMMARY PAGE

CANADIAN DAIRY COMMISSION

MANDATE

To provide efficient producers of milk and cream with an opportunity of obtaining a fair return for their labour and investment and to provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality.

BACKGROUND

Established in 1966, the corporation administers the following elements of the federal dairy program: calculation of Target Price for milk and cream for industry; market support for the Target Price through a nationwide offer to purchase butter and skim milk powder; payment of subsidy on eligible milk and cream shipments; international marketing of dairy products not required for domestic consumption; receipt of levies collected by provinces from farmers to finance the cost of exporting products surplus to domestic requirements; and coordination of national supply management of industrial milk production.

CORPORATION DATA

HEAD OFFICE	Pebb Building 2197 Riverside Drive Ottawa, Ontario K1A 0Z2
STATUS	— Schedule III, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Don Mazankowski, P.C., M.P. Deputy Prime Minister
DEPARTMENT	Agriculture
YEAR AND MEANS OF INCORPORATION	1966; by the *Canadian Dairy Commission Act* (R.S.C. 1985, c. C-15).
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Roch Morin
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) financial year ending July 31.

	1988	**1987**	**1986**	**1985**
At the end of the period				
Total Assets	222.8	212.2	259.8	333.6
Obligations to the private sector	82.1	77.9	89.9	58.2
Obligations to Canada	87.4	85.2	126.3	234.3
Equity of Canada	nil	nil	nil	nil
Cash from Canada in the period				
— budgetary*	290.2	287.0	292.2	314.4
— non-budgetary, net	2.2	(41.1)	(108.0)	53.9

* Includes payments via the Agricultural Stabilization Board.

CANADIAN DAIRY COMMISSION

THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 31, 1989
WERE NOT AVAILABLE AT DATE OF PRINTING

CANADIAN DAIRY COMMISSION—*Continued*

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Commission's management is responsible for the integrity and fair presentation of the financial statements and all information presented in this Annual Report. These financial statements were prepared in accordance with generally accepted accounting principles and where appropriate, include amounts based on management's estimates and judgement.

The Commission has maintained books of accounts, records, financial and management controls, information systems and management practices. These are designed to provide reasonable assurance that assets are safeguarded and controlled and that the transactions of the Commission are in accordance with Part XII of the Financial Administration Act, the applicable regulations, the Canadian Dairy Commission Act and its by-laws.

The Audit Committee meets periodically with management, the Auditor General's staff and internal auditors to review internal controls, financial statements, audit reports and recommends approval of the financial statements by the Commission. It also discusses the implementation of the suggested improvements in internal control, systems and practices with the auditors and manager(s) responsible.

The Commission's financial statements are independently audited by the Auditor General of Canada whose report is included herein.

Roch Morin
Chairman

Paul Simard
Director of Finance

AUDITOR'S REPORT

TO THE MINISTER OF AGRICULTURE

I have examined the balance sheet of the Canadian Dairy Commission as at July 31, 1988 and the statements of dairy support program operations financed by Government of Canada and marketing operations financed by producer levies for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Commission as at July 31, 1988 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Commission that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Canadian Dairy Commission Act and the by-laws of the Commission.

D. Larry Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
October 6, 1988

BALANCE SHEET AS AT JULY 31, 1988
(in thousands of dollars)

ASSETS	1988	1987
Accounts receivable		
Trade (Note 3)	23,084	13,063
Government of Canada (Note 4)	52,271	55,263
Producer levies	64,773	78,398
Inventories (Note 5)	82,656	65,455
	222,784	212,179

LIABILITIES	1988	1987
Accounts payable and accrued liabilities	43,814	41,053
Direct support payments payable to producers	51,837	54,621
Allowance for losses on surplus production and export sales	8,766	7,491
Loans from Government of Canada (Note 6)	88,073	85,769
	192,490	188,934
EXCESS OF FINANCING BY PRODUCER LEVIES		
Excess of financing over cost of marketing operations (Notes 4 and 11)	30,294	23,245
	222,784	212,179

Approved:

ROCH MORIN
Chairman

KENNETH McKINNON
Vice-Chairman

PAUL SIMARD
Director of Finance

CANADIAN DAIRY COMMISSION—*Continued*

STATEMENT OF MARKETING OPERATIONS FINANCED BY PRODUCER LEVIES
FOR THE YEAR ENDED JULY 31, 1988
(in thousands of dollars)

	1988					1987				
	Butter	Skim Milk Powder	Evaporated Milk	Other Products*	Total	Total	Butter	Skim Milk Powder	Evaporated Milk	Other Products*
Sales—Export	1,177	91,913	14,649	20,011	127,750	128,188	1,938	73,879	28,128	24,243
—Domestic	53,388				53,388	87,766	82,027	5,739		
	54,565	91,913	14,649	20,011	181,138	215,954	83,965	79,618	28,128	24,243
Cost of goods sold										
—Export	6,211	170,472	22,200	41,354	240,237	285,081	9,532	171,280	41,856	62,413
—Domestic	52,413				52,413	58,788	55,081	3,707		
	58,624	170,472	22,200	41,354	292,650	343,869	64,613	174,987	41,856	62,413
Loss on sales	4,059	78,559	7,551	21,343	111,512	127,915	(19,352)	95,369	13,728	38,170
Assistance and expenses										
Dairy product assistance	1,186	31,296	1,711	20,328	54,521	60,698	828	22,042	1,410	36,418
Inventory write down and losses on surplus production and export sales	1,715	15,080	2,015	8,452	27,262	29,321	390	22,524	1,175	5,232
Promotion	5,218	1,955			7,173	3,584	2,004	1,571	9	
Carrying charges	2,692		327	612	3,631	6,549	5,701	96	572	180
Provision for doubtful accounts			2,555	945	3,500	3,700			2,800	900
Transport assistance	759				759	634	634			
Capital assistance recoveries			(78)		(78)	(220)			(220)	
	11,570	48,331	6,530	30,337	96,768	104,266	9,557	46,233	5,746	42,730
Cost of marketing operations	15,629	126,890	14,081	51,680	208,280	232,181	(9,795)	141,602	19,474	80,900
Financing by producer levies (Note 7)					215,329	245,414				
Excess of financing over cost of marketing operations					7,049	13,233				
Excess at beginning of year					23,245	36,012				
					30,294	49,245				
Refunds of excess of financing over cost of marketing operations						(26,000)				
Excess at end of year					30,294	23,245				

	Volume (in millions)				Volume (in millions)			
	Kilo-grams	Kilo-grams	Cases	Kilo grams	Kilo-grams	Kilo-grams	Cases	Kilo-grams
Sales	11.9	62.5	0.8	10.8	18.3	73.0	1.5	14.8
Purchases	13.6	61.5	0.9	11.9	9.8	67.9	1.1	15.9

*Includes whole milk powder and cheese.

CANADIAN DAIRY COMMISSION—*Continued*

STATEMENT OF DAIRY SUPPORT PROGRAM OPERATIONS
FINANCED BY GOVERNMENT OF CANADA
FOR THE YEAR ENDED JULY 31, 1988
(in thousands of dollars)

	1988	1987
Direct support payments to producers of industrial milk and cream	283,092	279,912
Administrative expenses	4,435	4,426
Carrying charges	2,126	2,228
Cost of production studies— Professional services	593	440
Cost of dairy support program operations	290,246	287,006
Financing by Government of Canada (Note 4)		
Agricultural Stabilization Board	285,811	282,580
Parliamentary appropriation	4,435	4,426
	290,246	287,006

NOTES TO FINANCIAL STATEMENTS
JULY 31, 1988

1. The Commission

The Canadian Dairy Commission (the "Commission"), a Crown corporation named in Schedule C, Part I of the Financial Administration Act, is an agent of Her Majesty, and is not subject to the provisions of the Income Tax Act. The objectives of the Commission, as established by the Canadian Dairy Commission Act 1966-67, are "to provide efficient producers of milk and cream with the opportunity of obtaining a fair return for their labour and investment and to provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality".

The Commission administers the Dairy Support Program financed by the Government of Canada and, in co-operation with the Canadian Milk Supply Management Committee (CMSMC), administers the Marketing Operations financed by Producer Levies.

2. Significant accounting policies

Foreign currency translation

Sales and receivables in foreign currencies are generally hedged by currency conversion agreements and are translated into Canadian dollars at the exchange rates provided therein. Sales which are not hedged by currency conversion agreements are translated into Canadian dollars at the exchange rate in effect at the date of the transaction. Monetary items denominated in a foreign currency at the balance sheet date which are not hedged are adjusted to reflect the exchange rate in effect at that date. Any exchange loss or gain, arising on translation or settlement of a foreign currency item, is charged or credited to marketing operations financed by producer levies.

Inventories

Inventories are valued at the lower of cost and net realizable value.

Allowance for losses on surplus production and export sales

The Commission establishes an allowance for losses on surplus production and export sales at the time such surplus occurs. The allowance is established by reference to the Commission's outstanding purchase commitments, actual butter inventory levels relative to the normal level established by the Commission, and world market prices.

Refunds of excess of financing over cost of marketing operations

In accordance with section 36 of the Memorandum of Agreement to the National Milk Marketing Plan, the treatment of any excess of financing by producer levies in respect of marketing operations is determined by the CMSMC. Refunds, if any, are recorded in the year declared.

3. Trade accounts receivable

Trade accounts receivable are net of an allowance for doubtful accounts of $11.8 million (1987—$8.3 million).

4. Financing

(i) Dairy Support Program Operations

The Agricultural Stabilization Board, through Agriculture Canada Vote 15, provides financing to the Commission for direct support payments to producers of industrial milk and cream and carrying charges associated with skim milk powder, to a maximum of $10 million annually.

Administrative expenses and professional services relating to cost of production and other studies are financed by Agriculture Canada Votes 5, 45 and 50 (1987—Votes 5, 40 and 45).

(ii) Marketing Operations

Producers are responsible for all costs of disposal of surplus production, all losses on special export production under the export quota program, and for carrying charges on surplus dairy products except for skim milk powder. These costs are financed through producer levies established by the CMSMC. Levies are charged and collected by the provincial marketing boards and agencies and remitted to the Commission.

Administrative services are provided by the Commission to the Marketing Operations Program without charge.

5. Inventories

	1988	1987
	(in thousands of dollars)	
Cost		
Butter	62,930	53,171
Skim milk powder	22,598	25,574
Other dairy products	15,624	8,541
	101,152	87,286
Less allowance for write down		
Butter		390
Skim milk powder	10,292	16,668
Other dairy products	8,204	4,773
	18,496	21,831
Net book value	82,656	65,455

CANADIAN DAIRY COMMISSION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
JULY 31, 1988—*Concluded*

Inventories of skim milk powder, other dairy products and unsalted butter have been written down to their estimated net realizable values based on world prices. This write down has been charged to marketing operations financed by producer levies.

6. Loans from Government of Canada

Loans are obtained to finance marketing operations. The Commission is authorized to borrow a maximum of $300 million from Canada. There are no specific terms of repayment. However, loans and accrued interest are repaid on a regular basis as and when funds are available. The interest rates during the year varied from 7.231% to 9.478% (1987—6.923% to 9.25%).

Loan transactions for the year are summarized as follows:

	1988	1987
	(in thousands of dollars)	
Balance at beginning of year	85,769	127,241
Borrowings	279,684	299,608
Payments	(278,090)	(341,683)
Accrued interest at end of year	710	603
Balance at end of year	88,073	85,769

7. Producer levies

Producer levies are comprised of:

	1988	1987
	(in thousands of dollars)	
Industrial milk		
In-quota levies	175,365	193,525
Over-quota levies	31,894	7,459
Export quota levies		36,476
	207,259	237,460
Fluid milk	8,070	7,954
	215,329	245,414

In-quota levies include an amount to cover the total cost of carrying charges on normal butter inventory levels. Over-quota levies are raised on production between 100% and 103% of the market sharing quota. The excess of financing over butter carrying charges for the year amounted to $1.5 million (1987—$1.2 million). The cumulative excess of financing over butter carrying charges amounted to $2.7 million at year end.

8. Representatives' fees

The Commission has used the services of representatives for the sale of dairy products on the export market. Fees, which are included in cost of goods sold, are as follows:

	1988	1987
	(in thousands of dollars)	
Coopérative Fédérée de Québec, Canada	631	780
L. & M. Exports Inc., Canada		565
Intercontinental, Mexico	1,026	710
Gestion Y. Dessarrollo—Commercial S.A., Peru	557	581
Canada Expa (1980) Inc., Canada	4	3
	2,218	2,639

9. Purchase commitments

As at July 31, 1988, the Commission was committed to purchase skim milk powder produced prior to that date at Canadian support prices and other dairy products at negotiated contract prices. The commitments amounted to approximately $14.4 million (1987—$11.4 million).

10. Related party transactions

Included in export sales is an amount of $11.5 million (1987—$19.4 million) of sales to the Canadian International Development Agency. These sales were in the normal course of business at the Commission's established sales prices. Related receivables at year end amounted to $2.3 million (1987—$2.8 million).

In addition, government departments provided certain administrative services to the Commission without charge.

11. Subsequent events

In accordance with the decision of the CMSMC at its meeting of September 29 and 30, 1988, $27 million of the excess of financing as at July 31, 1988 will be refunded to the provinces. Further, the CMSMC agreed that the $2.7 million of the excess of financing for butter carrying charges at July 31, 1988 would be applied to future butter carrying charges.

The CMSMC also approved an extension of the deadline for the province of British Columbia for serving notice to withdraw from the National Milk Marketing Plan effective July 31, 1989.

12. Financial statement presentation

A statement of changes in financial position has not been included because, in the opinion of management, it would not provide any meaningful additional information. Further,certain comparative amounts have been reclassified to conform with the presentation adopted in the current year.

SUMMARY PAGE

CANADIAN FILM DEVELOPMENT CORPORATION

MANDATE

To foster and promote the development of a feature film industry in Canada. To administer the Canadian Broadcast Program Development Fund and the Feature Film Fund for private sector development of television and feature film productions meeting specific standards of Canadian content.

BACKGROUND

The scale of the corporation's activities has increased since 1981 with the inception of new government programs in support of the domestic television and feature film productions industry.

CORPORATION DATA

HEAD OFFICE	National Bank Tower 600 de la Gauchetière Street, West Montreal, Quebec H3B 4L2
STATUS	— an agent of Her Majesty — exempted from Divisions I to IV of Part X of the *Financial Administration Act*; subject to Part VIII of this Act as it read immediately before the (1984) repeal thereof.
APPROPRIATE MINISTER	The Honourable Marcel Masse, P.C., M.P.
DEPARTMENT	Communications
YEAR AND MEANS OF INCORPORATION	1967; by the *Canadian Film Development Corporation Act*, (R.S.C. 1985, c. C-16).
CHIEF EXECUTIVE OFFICER	Pierre Desroches
CHAIRMAN	Edmund Bovey
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) Financial year ending March 31.

	1989	**1988**	**1987 (restated)**	**1986**
At the end of the period				
Total Assets	35.0	27.3	27.0	13.0
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil*	6.3	6.3
Equity of Canada	24.2	19.9	19.8	10.1
Cash from Canada in the period				
— budgetary	128.9	115.6	86.0	75.9
— non-budgetary	nil	nil	nil	nil

* In 1987-88, pursuant to authorization, Canada forgave $6.3 million loan principal.

CANADIAN FILM DEVELOPMENT CORPORATION

AUDITOR'S REPORT

TO THE MINISTER OF COMMUNICATIONS

I have examined the balance sheet of the Canadian Film Development Corporation as at March 31, 1989 and the statements of operations, equity of Canada and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, on a basis consistent with that of the preceding year.

Further, in my opinion, proper books of account have been kept by the Corporation, the financial statements are in agreement therewith and the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with the Financial Administration Act and regulations, the Canadian Film Development Corporation Act and the by-laws of the Corporation.

Raymond Dubois, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 7, 1989

BALANCE SHEET AS AT MARCH 31, 1989

ASSETS	1989	1988
	$	$
Current		
Loans		
Canadian programming		
Interim financing	2,769,788	2,137,159
Permanent financing	649,750	628,950
Feature films		
Interim financing	2,635,754	2,230,604
Permanent financing	1,165,250	1,052,182
	7,220,542	6,048,895
Parliamentary appropriation receivable (Note 3)	18,847,152	16,057,183
Accounts receivable	1,132,900	423,862
Prepaid expenses	857,445	949,818
	28,058,039	23,479,758
Long-term loans		
Canadian programming		
Interim financing	225,000	470,500
Permanent financing	913,250	100,000
Feature films		
Interim financing	555,900	446,900
Permanent financing	2,675,000	1,000,000
	4,369,150	2,017,400
Fixed assets (Note 4)	2,615,679	1,837,538
	35,042,868	27,334,696

LIABILITIES	1989	1988
	$	$
Current		
Accounts payable	10,563,754	7,251,763
Long-term		
Provision for employee termination benefits	250,372	190,494
	10,814,126	7,442,257
EQUITY OF CANADA		
Equity of Canada	24,228,742	19,892,439
	35,042,868	27,334,696

Approved by the Board:

EDMUND BOREY
Chairman

Approved by the Management:

PIERRE DESROCHES
Executive Director

CANADIAN FILM DEVELOPMENT CORPORATION—*Continued*

STATEMENT OF OPERATIONS FOR THE YEAR ENDED MARCH 31, 1989

	1989			1988
	Canadian programming	Feature films	Total	Total
	$	$	$	$
Assistance expenses (Note 5)				
English production	38,140,414	22,339,246	60,479,660	55,989,804
French production	21,128,836	11,186,508	32,315,344	36,888,588
Marketing and distribution		22,176,702	22,176,702	7,718,909
Development of the industry		5,797,132	5,797,132	3,550,017
	59,269,250	61,499,588	120,768,838	104,147,318
Revenues				
Interest on loans	796,627	860,900	1,657,527	1,009,644
Management fees				904,975
	796,627	860,900	1,657,527	1,914,619
Cost of operations before administration expenses	58,472,623	60,638,688	119,111,311	102,232,699
Administration expenses (Note 6)			5,420,386	6,160,833
Cost of operations for the year			124,531,697	108,393,532

STATEMENT OF EQUITY OF CANADA FOR THE YEAR ENDED MARCH 31, 1989

	1989	1988
	$	$
Balance at begining of the year		
As previously reported	19,892,439	28,495,921
Write-off of a portion of the parliamentary appropriation receivable for previous years (Note 7)		(8,731,950)
As restated	19,892,439	19,763,971
Parliamentary appropriation for the year	128,868,000	108,522,000
	148,760,439	128,285,971
Cost of operations for the year	124,531,697	108,393,532
Balance at end of the year	24,228,742	19,892,439

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1989

	1989	1988
	$	$
Operating activities		
Cost of operations for the year	(124,531,697)	(108,393,532)
Items not affecting liquidity		
Loans written-off or converted into investments	3,289,293	2,523,090
Depreciation	645,775	455,554
Increase (decrease) in the provision for employee termination benefits	59,878	(86,010)
	(120,536,751)	(105,500,898)
Net change in non liquidity items of working capital related to operations	2,695,326	635,686
	(117,841,425)	(104,865,212)
Investing activities		
Loans		
Investments	(14,379,368)	(12,914,428)
Reimbursements	7,566,678	12,425,365
	(6,812,690)	(489,063)
Acquisition of fixed assets	(1,423,916)	(1,361,907)
	(8,236,606)	(1,850,970)
Financing activities		
Parliamentary appropriation for the year	128,868,000	108,522,000
Parliamentary appropriation receivable		
Increase for the year	2,789,969	1,805,818
Balance at beginning of the year	16,057,183	14,251,365
Balance at end of the year	18,847,152	16,057,183

NOTES TO FINANCIAL STATEMENTS MARCH 31, 1989

1. Authority and activities

The Corporation was established in 1967 by the Canadian Film Development Corporation Act with the objective of fostering and promoting the development of a feature film industry in Canada. The Corporation has since been charged with the administration of the Canadian Broadcast Program Development Fund, established on July 1, 1983, within the framework of the Broadcasting Strategy for Canada as well as with the management of various new programs established under the National Film and Video Policy of May 1984.

The Corporation is a Crown corporation subject to the provisions of Part VIII of the Financial Administration Act as it read before its repeal in 1984 and as if it continued to be named in Schedule C of the Act.

2. Significant accounting policies

(a) Liquidity

The financial operations of the Corporation are processed through the Consolidated Revenue Fund of Canada, thus the absence of bank accounts. For the purposes of the statement of changes in financial position, its liquidity consists of a parliamentary appropriation receivable.

(b) Loans

Loans are shown on the balance sheet at their face value, less an allowance for losses.

CANADIAN FILM DEVELOPMENT CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989—*Continued*

(c) Investments

Funds advanced for feature films and Canadian programming, in return for a share in the proceeds, are expensed as assistance expenses in the year in which the funds are paid or have become payable.

All proceeds, up to the amount of the related investment, are credited to expenses as a reduction of assistance expenses made during the year. Any amount in excess thereof is accounted for as revenues.

(d) Fixed assets

Fixed assets are recorded at cost.

Depreciation is provided for, using the diminishing-balance method, at the annual rate of 30% for the automobile and 20% for the furniture and equipment and the computer installations. Leasehold improvements are amortized, using the straight-line method, based on the terms of the leases.

(e) Parliamentary appropriation

The parliamentary appropriation voted to the Corporation for its objectives comprises an amount for the development of a feature film industry which can be carried forward to future years up to the amount of unused film receipts and another lapsing amount for the production of Canadian programming. The unlapsed parliamentary appropriation is credited to the Equity of Canada. The admissible unlapsed amount not used at the end of the year is presented on the balance sheet as a parliamentary appropriation receivable.

(f) Employee termination benefits

On termination of employment, employees are entitled to certain benefits provided for under their conditions of employment. The cost of these benefits is expensed in the year in which they are earned.

(g) Pension plan

All employees participate in the superannuation plan administered by the Government of Canada. The employees and the Corporation contribute equally to the cost of the plan. This contribution represents the total liability of the Corporation. Contributions in respect of current service and admissible past service are expensed during the year in which payments are made. The terms of payment for past service are set by the applicable purchase conditions in effect, generally over the number of years of service remaining prior to retirement.

3. Parliamentary appropriation receivable

	1989	1988
	$	$
Development of the feature film industry	13,147,699	7,675,238
Canadian programming production	3,885,895	5,667,108
Interim financing to producers and distributors	1,813,558	2,714,837
	18,847,152	16,057,183

4. Fixed assets

	1989			1988
	Cost	Accumulated depreciation	Net	Net
	$	$	$	$
Furniture and equipment	1,556,120	792,640	763,480	657,420
Computer installations	1,894,640	594,753	1,299,887	755,391
Leasehold improvements	806,074	267,762	538,312	424,727
Automobile	20,000	6,000	14,000	
	4,276,834	1,661,155	2,615,679	1,837,538

5. Assistance expenses

	1989			1988
	Canadian programming	Feature films	Total	Total
	$	$	$	$
Investments	64,148,007	58,855,676	123,003,683	107,787,260
Proceeds from investments	(9,662,172)	(2,947,479)	(12,609,651)	(11,693,953)
Loans written-off or converted into investments	2,835,556	453,737	3,289,293	2,523,090
Reimbursements of loans previously written-off		(43,929)	(43,929)	
	57,321,391	56,318,005	113,639,396	98,616,397
Operating expenses (Note 6)	1,947,859	5,181,583	7,129,442	5,530,921
	59,269,250	61,499,588	120,768,838	104,147,318

6. Operating expenses

	1989	1988
	$	$
Salaries and employee benefits	5,966,015	5,472,958
Rent, taxes, heating and electricity	1,417,070	1,088,347
Professional services	1,394,806	1,585,663
Printing, postage and office expenses	1,201,526	1,152,535
Travel	671,721	647,703
Depreciation	645,775	455,554
Advertising	461,076	265,584
Telephone and telex	344,944	371,745
Hospitality	152,816	196,927
Relocation expenses	148,527	183,361
Consultants' fees	145,552	271,377
	12,549,828	11,691,754
Portion applicable to assistance expenses (Note 5)	7,129,442	5,530,921
Portion applicable to administration expenses	5,420,386	6,160,833

7. Parliamentary appropriation receivable

Prior to April 1, 1987 the Corporation has considered that the unused portion of the parliamentary appropriation for the development of the feature film industry during a year could be carried forward to future years. During the year ended March 31, 1988, the Treasury Board has decided to limit this carry-forward, with retroactive effect, to the unused film receipts. In order to comply with this decision, the Corporation has retroactively written-off the amount of $8,731,950 of the parliamentary appropriation receivable shown in its financial statements as at March 31, 1987, with a contra entry to the Equity of Canada.

CANADIAN FILM DEVELOPMENT CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989—*Concluded*

8. Commitments

As at March 31, 1989, the Corporation is contractually committed to advance funds totalling $39,283,576 as loans and investments, of which $18,814,921 are for French productions and $20,468,655 are for English productions. Further, it has accepted financing projects that may call for disbursements of approximately $3,307,739 of which $2,949,871 are for French productions and $357,868 are for English productions.

The Corporation has entered into long-term leases for the rental of office space and equipment used in its operations. The aggregate minimum annual rentals payable during subsequent years are as follows:

	$
1990	1,604,655
1991	1,680,198
1992	1,598,336
1993	1,695,335
1994	1,655,979
1995-2000	7,018,134
	15,252,637

SUMMARY PAGE

CANADIAN INSTITUTE FOR INTERNATIONAL PEACE AND SECURITY

MANDATE

To increase knowledge and understanding of the issues relating to international peace and security from a Canadian perspective, with particular emphasis on arms control, disarmament, defence and conflict resolution.

BACKGROUND

The corporation was established in 1984 by special Act of Parliament. That Act was amended (R.S.C. 1985, 1st Supp. c. 46) to give the corporation status under the *Financial Administration Act* resembling that of the cultural Crown corporations, being exempt from most provisions of Part X of the Act. The corporation is authorized to fulfill its mandate by the following means:

(a) foster, fund and conduct research;
(b) promote scholarship;
(c) study and propose ideas and policies; and
(d) collect and disseminate information on, and encourage public discussion of issues of international peace and security.

CORPORATION DATA

HEAD OFFICE	360 Albert Street Ottawa, Ontario K1R 7X7
STATUS	— not an agent of Her Majesty — exempt from Divisions I to IV of Part X of the *FAA* by s. 85(1) of that Act.
APPROPRIATE MINISTER	The Right Honourable Joe Clark, P.C., M.P.
DEPARTMENT	External Affairs
YEAR AND MEANS OF INCORPORATION	1984; by the *Canadian Institute for International Peace and Security Act*, (R.S.C. 1985, c. C-18).
CHIEF EXECUTIVE OFFICER	Bernard Wood
CHAIRMAN	David Braide
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) Financial years ending March 31.

	1989	1988	1987	1986
At the end of the period				
Total Assets	2.2	1.8	1.6	1.9
gations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	1.7	1.6	1.4	1.7
Cash from Canada in the period				
— budgetary	5.0	4.0	3.0	2.5
— non-budgetary	nil	nil	nil	nil

CANADIAN INSTITUTE FOR INTERNATIONAL PEACE AND SECURITY

AUDITOR'S REPORT

TO THE CANADIAN INSTITUTE FOR INTERNATIONAL
PEACE AND SECURITY
AND
SECRETARY OF STATE FOR EXTERNAL AFFAIRS

I have examined the balance sheet of the Canadian Institute for International Peace and Security as at March 31, 1989 and the statements of operations and equity of Canada and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards,and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Institute as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

D. Larry Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 23, 1989

BALANCE SHEET AS AT MARCH 31, 1989

ASSETS	1989	1988	LIABILITIES	1989	1988
	$	$		$	$
Current			Current		
Cash and term deposits	1,738,040	1,640,860	Accounts payable and accrued liabilities	240,728	240,093
Accrued interest	10,789	11,612	Deferred rent compensation (Note 4)	168,003	
Prepaid expenses	134,373	41,120			
	1,883,202	1,693,592		408,731	240,093
Furniture, equipment and leasehold improvements (Note 3)	272,899	143,309	EQUITY OF CANADA		
			Equity of Canada	1,747,370	1,596,808
	2,156,101	1,836,901		2,156,101	1,836,901

Approved by the Board:

WILLIAM H. BARTON
Chairman of the Board

BERNARD WOOD
Chief Executive Officer

CANADIAN INSTITUTE FOR INTERNATIONAL PEACE AND SECURITY—*Continued*

STATEMENT OF OPERATIONS AND EQUITY OF CANADA FOR THE YEAR ENDED MARCH 31, 1989

	1989	1988
	$	$
Expenses (Schedule)		
Programmes		
Research	1,197,732	831,692
Responsive grants, awards and scholarships	1,156,017	905,114
Public programmes	1,046,388	875,387
Information services	464,390	250,438
	3,864,527	2,862,631
General administration and support		
Administration	672,542	627,939
Executive	355,642	291,356
Board of Directors	94,487	98,644
	1,122,671	1,017,939
	4,987,198	3,880,570
Revenue		
Interest income	137,760	75,430
Net cost of operations	4,849,438	3,805,140
Parliamentary appropriation	5,000,000	4,000,000
Excess of parliamentary appropriation over net cost of operations	150,562	194,860
Equity of Canada at beginning of the year	1,596,808	1,401,948
Equity of Canada at end of the year	1,747,370	1,596,808

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1989

	1989	1988
	$	$
Operating activities		
Cash used in operations		
Net cost of operations	4,849,438	3,805,140
Item not requiring an outlay of funds		
Depreciation and amortization	(103,851)	(79,243)
	4,745,587	3,725,897
Changes in balance sheet accounts		
Increase in deferred rent compensation	(168,003)	
Increase in prepaid expenses	93,253	25,563
Increase (decrease) in accrued interest	(823)	385
Increase in accounts payable and accrued liabilities	(635)	(85,796)
	4,669,379	3,666,049
Investing activities		
Acquisition of furniture, equipment and leasehold improvements	233,441	61,834
Financing activities		
Parliamentary appropriation	(5,000,000)	(4,000,000)
Increase during the year	97,180	272,117
Cash and term deposits at beginning of year	1,640,860	1,368,743
Cash and term deposits at end of year	1,738,040	1,640,860

NOTES TO FINANCIAL STATEMENTS MARCH 31, 1989

1. Authority and operations

The Institute was established in 1984 under the Canadian Institute for International Peace and Security Act (the Act). The Institute is exempt from Divisions I to IV of Part X of the Financial Administration Act.

The purpose of the Institute is to increase knowledge and understanding of the issues relating to international peace and security from a Canadian perspective with particular emphasis on arms control, disarmament, defence and conflict resolution, and to:

(a) foster, fund and conduct research on matters relating to international peace and security;

(b) promote scholarship in matters relating to international peace and security;

(c) study and propose ideas and policies for the enhancement of international peace and security; and

(d) collect and disseminate information on, and encourage public discussion of, issues of international peace and security.

2. Significant accounting policies

These financial statements have been prepared in accordance with generally accepted accounting principles. The significant accounting policies followed are:

(a) Furniture, equipment and leasehold improvements

Furniture, equipment and leasehold improvements are recorded at cost. Furniture and equipment are depreciated on the straight-line basis at an annual rate of 20%. Leasehold improvements are amortized, using the straight-line method, based on the duration of the lease.

(b) Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Institute's contributions are equal to the contributions paid by its employees in respect of current services. These contributions represent the total liability of the Institute in respect of the pension plan and are recorded as expenses in the same period as the employees' services are rendered.

(c) Income taxes

The Institute is exempt from any income tax

(d) Parliamentary appropriation

Parliamentary appropriation is recorded in the accounts on an accrual basis. Furthermore, the Act states that the Institute shall be paid from the Consolidated Revenue Fund the sum of $5 million annually or such greater amount as may be appropriated by Parliament.

(e) Grants, awards and scholarships

Grants, awards and scholarships are charged to operations when the conditions of the agreement are met by the recipient.

3. Furniture, equipment and leasehold improvements

	1989			1988
	Cost	Accumulated depreciation and amortization	Net	Net
	$	$	$	$
Furniture	305,309	145,222	160,087	68,683
Equipment	191,866	79,054	112,812	70,210
Leasehold improvements	45,872	45,872		4,416
	543,047	270,148	272,899	143,309

CANADIAN INSTITUTE FOR INTERNATIONAL PEACE AND SECURITY—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989—*Concluded*

4. Deferred rent compensation

Amount provided by new landlord to compensate for expenses to be incurred on previous leased premises during 1989-90.

5. Commitments

(a) Office lease agreement

The total commitments for lease payments are estimated at $365,000 for each of the nine subsequent years. The lease agreement also calls for a pro rata share of occupancy costs of approximately $177,000 annually.

(b) Programmes

The Institute is committed to make payments totalling approximately $1,302,400 in subsequent years ($1,248,400 in 1989-90) subject to compliance by the recipients with the terms of the agreements.

	1989	1988
	$	$
Research	547,000	360,000
Responsive grants, awards and scholarships	515,300	644,300
Public programmes	210,100	149,000
Information services	30,000	2,400
	1,302,400	1,155,700

SCHEDULE OF EXPENSES
FOR THE YEAR ENDED MARCH 31, 1989

	Programmes					General Administration and Support					
	Research	Responsive grants, awards and scholarships	Public programmes	Information services	Total	Administration	Executive	Board of Directors	Total	1989	1988
	$	$	$	$	$	$	$	$	$	$	$
Grants	487,730	973,024	210,311	81,440	1,752,505					1,752,505	1,310,014
Salaries and employee benefits	386,316	141,041	346,242	172,689	1,046,288	241,899	283,809		525,708	1,571,996	1,277,005
Rent and occupancy costs	92,342	23,129	74,286	110,397	300,154	116,535	43,390		159,925	460,079	196,086
Publications	150,350		288,546		438,896					438,896	402,246
Transportation and communications	36,646	13,808	24,068	22,497	97,019	98,656	24,036	44,078	166,770	263,789	227,175
Professional and special services	4,527	5,015	63,006	34,601	107,149	18,793	4,407	13,159	36,359	143,508	100,946
Materiel and supplies				36,170	36,170	69,178			69,178	105,348	97,840
Depreciation and amortization						103,851			103,851	103,851	79,243
Conferences, workshops and seminars	39,821		39,929	6,596	86,346					86,346	127,967
Directors' fees								37,250	37,250	37,250	34,750
Repair and upkeep						20,480			20,480	20,480	24,596
Miscellaneous						3,150			3,150	3,150	2,702
	1,197,732	1,156,017	1,046,388	464,390	3,864,527	672,542	355,642	94,487	1,122,671	4,987,198	3,880,570

SUMMARY PAGE

CANADIAN LIVESTOCK FEED BOARD

MANDATE

To ensure: availability of adequate feed grain to meet the needs of livestock feeders; availability of adequate storage for feed grain in eastern Canada; reasonable stability in prices for feed grain in eastern Canada, British Columbia and the Yukon and Northwest Territories; and fair equalization of feed grain prices in those regions.

BACKGROUND

Established in 1967, the Board executes its mandate by subsidizing the transportation costs of feed grains; by assessing requirements for feed grains and storage space and by collecting and disseminating related information; and by negotiating and coordinating with respect to storage, handling, transportation and cost of feed grains. Its programs are financed by budgetary payments from Canada.

CORPORATION DATA

HEAD OFFICE	Suite 400 5180 Queen Mary Road P.O. Box 177, Snowdon Station Montreal, Quebec H3X 3T4
STATUS	— Schedule III, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Charles Mayer, P.C., M.P. Minister of Western Economic Diversification and Minister of State (Grains and Oilseeds).
DEPARTMENT	Agriculture
YEAR AND MEANS OF INCORPORATION	1967; pursuant to the *Livestock Feed Assistance Act*, (R.S.C. 1985, c. L-10).
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Denis Ethier
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) Financial years ending March 31.

	1989	1988	1987	1986
At the end of the period				
Total Assets	2.4	2.1	2.4	2.5
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	negl.	0.2	0.3	0.5
Cash from Canada in the period				
— budgetary	19.1	18.6	17.2	16.8
— non-budgetary	nil	nil	nil	nil

CANADIAN LIVESTOCK FEED BOARD

AUDITOR'S REPORT

TO THE CANADIAN LIVESTOCK FEED BOARD
AND THE
MINISTER OF AGRICULTURE

I have examined the balance sheet of the Canadian Livestock Feed Board as at March 31, 1989 and the statements of operations, equity of Canada and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Board as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Board that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Livestock Feed Assistance Act and regulations and the by-laws of the Board.

Raymond Dubois, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 31, 1989

BALANCE SHEET AS AT MARCH 31, 1989

ASSETS	1989	1988	LIABILITIES	1989	1988
	$	$		$	$
Current			Current		
Accounts receivable	97,507	2,633	Accounts payable	101,286	75,961
Parliamentary appropriations receivable	2,068,086	1,762,837	Contributions payable	2,052,571	1,723,963
	2,165,593	1,765,470		2,153,857	1,799,924
Amounts recoverable under the new inland elevator construction assistance program (Note 3)	217,048	348,184	Provision for employee termination benefits	157,267	136,439
				2,311,124	1,936,363
			EQUITY OF CANADA		
			Equity of Canada	71,517	177,291
	2,382,641	2,113,654		2,382,641	2,113,654

Approved by Management:

PIERRE MORIN
Director of Finance

Approved by the Board:

DENIS ÉTHIER
Chairman

CANADIAN LIVESTOCK FEED BOARD—*Continued*

STATEMENT OF OPERATIONS FOR THE YEAR ENDED MARCH 31, 1989

	1989	1988
	$	$
Contributions		
Feed freight assistance	17,579,080	17,233,844
New inland elevator construction assistance (Note 3)	13,000	14,000
	17,592,080	17,247,844
Administrative expenses		
Salaries and employee benefits	985,281	943,180
Travel	109,317	92,397
Rentals	97,241	91,548
Telephone	52,486	49,188
Publication of reports	47,748	46,623
Professional and special services	42,700	34,411
Stationery and office supplies	40,705	48,711
Postage	33,507	44,732
Electricity	13,061	10,865
Equipment and office furniture	4,807	33,718
Advisory committee fees	2,250	4,000
Accounting and cheque issue services	2,000	3,000
Miscellaneous	9,740	6,306
	1,440,843	1,408,679
Cost of operations for the year	19,032,923	18,656,523

STATEMENT OF EQUITY OF CANADA FOR THE YEAR ENDED MARCH 31, 1989

	1989	1988
	$	$
Balance at beginning of the year	177,291	313,432
Parliamentary appropriations	18,925,149	18,517,382
Services provided without charge by a government department	2,000	3,000
	19,104,440	18,833,814
Cost of operations for the year	19,032,923	18,656,523
Balance at end of the year	71,517	177,291

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1989

	1989	1988
	$	$
Operating activities		
Cost of operations for the year	(19,032,923)	(18,656,523)
Items not affecting liquidity		
Provision for losses in respect of amounts recoverable under the new inland elevator construction assistance program	13,000	14,000
Services provided without charge by a government department	2,000	3,000
Increase in the provision for employee termination benefits	20,828	8,723
	(18,997,095)	(18,630,800)
Decrease (increase) in accounts receivable	(94,874)	3,405
Increase in accounts payable	25,325	16,866
Increase (decrease) in contributions payable	328,608	(210,031)
	(18,738,036)	(18,820,560)
Financing activities		
Parliamentary appropriations	18,925,149	18,517,382
Investing activities		
Amounts recovered under the new inland elevator construction assistance program	118,136	97,695
Parliamentary appropriations receivable		
Increase (decrease) for the year	305,249	(205,483)
Balance at beginning of the year	1,762,837	1,968,320
Balance at end of the year	2,068,086	1,762,837

NOTES TO FINANCIAL STATEMENTS MARCH 31, 1989

1. Authority and objectives

The Board, a Crown corporation named in Part I of Schedule III to the Financial Administration Act, was established in 1967 under the Livestock Feed Assistance Act with the objective of ensuring:

— the availability of feed grain to meet the needs of livestock feeders;

— the availability of adequate storage space in Eastern Canada for feed grain to meet the needs of livestock feeders; and

— reasonable stability in, and fair equalization of, feed grain prices in Eastern Canada, British Columbia, the Yukon Territory and the Northwest Territories.

2. Significant accounting policies

(a) Liquidity

The financial operations of the Board are processed through the Consolidated Revenue Fund of Canada, thus the absence of bank accounts. For the purposes of the statement of changes in financial position, the liquidity consists of parliamentary appropriations receivable or payable.

(b) Contributions

Feed freight assistance is charged to operations in the year in which shipments are made.

Write-offs or provisions for losses of amounts recoverable under the new inland elevator construction assistance program are charged to operations in the year in which collection is considered doubtful.

CANADIAN LIVESTOCK FEED BOARD—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989—*Concluded*

(c) Capital expenditures

Purchases of equipment, office furniture, vehicles and costs of office renovations are expensed in the year of acquisition.

(d) Parliamentary appropriations

Parliamentary appropriations are recorded in the Statement of Equity of Canada for the year to which they apply.

(e) Services provided without charge

An estimated amount for services provided without charge by a government department is included in expenses with an offset to the equity of Canada.

(f) Employee termination benefits

On termination of employment, employees are entitled to certain benefits provided for under their collective agreements and their conditions of employment. The cost of these benefits is expensed in the year in which they are earned.

(g) Pension plan

All employees participate in the superannuation plan administered by the Government of Canada. The employees and the Board contribute equally to the cost of the plan. This contribution represents the total liability of the Board. Contributions in respect of current service and of admissible past service are expensed when paid. The terms of payment of past service contributions are set by the applicable purchase conditions, generally over the number of years of service remaining prior to retirement.

3. Amounts recoverable under the new inland elevator construction assistance program

Under the new inland elevator construction assistance program, the Board contributed towards certain construction costs. As at March 31, 1983, all contributions by the Board had been paid to operators of the elevators. These operators are called upon to reimburse, without interest, part of the contributions received. Reimbursements are based on stored quantities from the fourth to the tenth year of operation of the new facility without exceeding 40% of the contribution received.

As at March 31, 1989, the Board estimates that the amounts that will be recovered, net of a provision for losses, total $217,048 ($348,184 as at March 31, 1988). Because of the basis for the calculation of reimbursements, it is not possible to determine the amounts that will be recovered during each applicable year.

SUMMARY PAGE

CANADIAN NATIONAL RAILWAY COMPANY

MANDATE

To operate a national railway system and other transportation and related services.

BACKGROUND

The corporation was created out of more than 200 companies, many of them insolvent. Its creation avoided the emergence of a monopoly in railway transport. The corporation's role was to mold a number of railway companies into one strong and commercially-competitive system, serving the entire nation. It was recapitalized in 1937, in 1952 and again in 1978. In 1988, the corporation sold hotel, telephone and telecommunication subsidiaries and applied the proceeds to reduce its debt.

CORPORATION DATA

HEAD OFFICE	935 de la Gauchetière Street West Montreal, Quebec H3B 2M9
STATUS	— Schedule III, Part II — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Benoît Bouchard, P.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1919; by the *Canadian National Railway Act* which was superseded by the 1955 Act of the same name (R.S.C. 1985, c. C-19).
CHIEF EXECUTIVE OFFICER	Ronald E. Lawless
CHAIRMAN (ACTING)	Brian O'N. Gallery
AUDITOR	Touche Ross & Co.

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.***

	1988	1987	1986	1985
At the end of the year				
Total Assets	6,906	7,594	7,843	8,139
Obligations to the private sector	1,893	2,901	3,380	3,217
Obligations to Canada	173	185	209	266
Equity of Canada	3,375	3,101	3,005*	3,418
Cash from Canada in the year				
— budgetary**	29	21	20	9
— non-budgetary	nil	nil	nil	nil

* $328 million of capital stock cancelled as CN Marine Inc. was transferred to the Crown.
** Excludes payments of a kind made to a general class of recipients and excludes cash for CN Marine Inc.
*** Until 1986, CN Marine Inc. was consolidated in the financial statements of CNR.

CANADIAN NATIONAL RAILWAY SYSTEM

AUDITORS' REPORT

TO THE MINISTER OF TRANSPORT

We have examined the consolidated balance sheets of the Canadian National Railway System as at December 31, 1988 and 1987 and the consolidated statements of income, retained earnings and changes in financial position for each of the years in the three-year period ended December 31, 1988. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the System as at December 31, 1988 and 1987 and the results of its operations and the changes in its financial position for each of the years of the three-year period ended December 31, 1988 in accordance with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand
Chartered Accountants
(For the year ended December 31, 1986)

Touche Ross
Chartered Accountants
(For the years ended December 31, 1988, 1987 and 1986)

Montreal, Canada
February 21, 1989

CONSOLIDATED BALANCE SHEET DECEMBER 31
(in thousands of dollars)

ASSETS	1988	1987
Current		
Cash and time deposits	36,286	
Accounts receivable	416,145	451,322
Material and supplies	219,152	284,850
Other	274,136	229,613
	945,719	965,785
Insurance fund	7,675	10,598
Investments	76,088	170,859
Properties	5,770,440	6,212,562
Other assets and deferred charges	106,113	233,845
	6,906,035	7,593,649

LIABILITIES	1988		1987	
Current				
Bank indebtedness		100		63,260
Accounts payable and accrued charges		806,169		942,250
Current portion of long-term debt		57,254		208,649
Other		276,214		237,027
		1,139,737		1,451,186
Provision for insurance		7,675		10,598
Other liabilities and deferred credits		421,815		298,110
Long-term debt		1,957,608		2,728,331
Minority interest in subsidiary companies		4,345		4,345
SHAREHOLDER'S EQUITY				
Capital stock	2,278,867		2,278,867	
Retained earnings	1,095,988	3,374,855	822,212	3,101,079
		6,906,035		7,593,649

See accompanying notes to consolidated financial statements.

On behalf of the Board:

BRIAN O'N. GALLERY
Director

RONALD E. LAWLESS
Director

CANADIAN NATIONAL RAILWAY SYSTEM—*Continued*

CONSOLIDATED STATEMENT OF INCOME YEAR ENDED DECEMBER 31 (in thousands of dollars)

	1988	1987	1986
CN Rail			
Revenues	3,792,115	3,732,294	3,669,380
Expenses	3,571,430	3,618,546	3,681,535
Income (loss)	220,685	113,748	(12,155)
Grand Trunk Corporation			
Revenues	477,816	486,044	531,399
Expenses	464,882	464,197	545,556
Income (loss)	12,934	21,847	(14,157)
Enterprises group			
CN Exploration			
Revenues	28,204	37,293	33,869
Expenses	25,064	26,672	29,368
Income	3,140	10,621	4,501
CN Real Estate			
Revenues	57,188	54,102	35,157
Expenses	10,376	16,300	16,330
Income	46,812	37,802	18,827
Other			
Income	10,471	7,007	9,006
Total Enterprises group	60,423	55,430	32,334
Total continuing operations	294,042	191,025	6,022
Discontinued operations			
TerraTransport			
Loss	(29,277)	(41,336)	(40,307)
CN Communications			
Income	12,362	21,935	34,720
CN Hotels			
Loss	(9,137)	(13,113)	(6,324)
Dockyard			
Income (loss)		1,368	(4,530)
CN Route			
Loss			(25,641)
Total discontinued operations	(26,052)	(31,146)	(42,082)
Premium on early extinguishment of long-term debt	(111,106)		
Income (loss) before income taxes and extraordinary items	156,884	159,879	(36,060)
Income taxes	99,803	76,038	
Income (loss) before extraordinary items	57,081	83,841	(36,060)
Extraordinary items (Note 2)	225,584	36,741	(50,220)
Net income (loss)	282,665	120,582	(86,280)

See Note 2.

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS YEAR ENDED DECEMBER 31 (in thousands of dollars)

	1988	1987	1986
Balance, beginning of year	822,212	725,746	812,026
Prior years' dividends reversed	47,644		
Net income (loss)	282,665	120,582	(86,280)
Dividend	(56,533)	(24,116)	
Balance, end of year	1,095,988	822,212	725,746

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION YEAR ENDED DECEMBER 31 (in thousands of dollars)

	1988	1987	1986
Operating activities			
Net income (loss)	282,665	120,582	(86,280)
Non-cash charges to income			
Depreciation and amortization	293,699	293,045	311,807
Loss (income) of equity investees less dividends	(8,402)	1,473	1,055
Loss (gain) on disposal of business units	(285,113)	(4,900)	18,420
Provision for property impairment	62,683	43,075	4,900
Changes in working capital items*	(40,542)	252,674	(21,194)
Other	66,887	38,484	31,928
	371,877	744,433	260,636
Investing activities			
Additions to properties	(386,319)	(482,058)	(484,072)
Net proceeds from disposal of properties	71,600	67,590	48,094
Investments in previously consolidated companies	(13,259)		
Other investments	(15,539)	(6,723)	(5,202)
Proceeds from sale of business units	882,283	23,596	23,000
Proceeds from sale of CN Marine Inc. and related assets			327,558
Redemption of capital stock			(327,558)
Working capital of previously consolidated companies	(18,642)	(2,747)	(7,633)
	520,124	(400,342)	(425,813)
Cash provided (used) before financing activities	892,001	344,091	(165,177)
Financing activities			
Issuance of long-term debt	5,772	19,020	435,492
Reduction of long-term debt	(798,327)	(319,477)	(224,490)
	(792,555)	(300,457)	211,002
Net increase in cash	99,446	43,634	45,825
Cash (bank indebtedness), beginning of year	(63,260)	(106,894)	(152,719)
Net cash (bank indebtedness), end of year	36,186	(63,260)	(106,894)

* Excluding cash, bank indebtedness, and current portion of long-term debt.

See accompanying notes to consolidated financial statements.

CANADIAN NATIONAL RAILWAY SYSTEM—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of significant accounting policies

Introduction

All references in these Notes to the "Company" refer to Canadian National Railway Company which is wholly-owned by the Government of Canada and, unless the context otherwise requires, its consolidated subsidiaries, and all references to the "System" mean Canadian National Railway Company and its consolidated subsidiaries together with the lines of railway, telecommunications and other property entrusted by the Government of Canada to the Company for management and operation.

(a) Principles of consolidation

The consolidated financial statements include the accounts of all significant subsidiaries and, prior to its disposal in 1988, included the Company's share of the assets, liabilities and income of CNCP Telecommunications which was accounted for by the proportionate consolidation method. Also, consistent with the legislation governing the System, the accounts of the Canadian Government Railways entrusted to the Company by the Government of Canada are included in the consolidated financial statements.

Once a formal plan for the disposition of a significant segment has been adopted, the segment is no longer consolidated but reported under the equity method and included in "Investments" in the consolidated financial statements. The related operating results are reported as results of discontinued operations.

Investments in entities in which the Company has less than a majority interest are accounted for by the equity method, where appropriate.

(b) Reporting by division

In presenting the results by division, interdivisional charges for services have not been eliminated. Consolidated net income is not affected by this practice.

(c) Material and supplies

The inventory is valued at laid down cost based on weighted average cost for ties and rails, latest invoice price for fuel and new materials in stores, and at estimated utility or sales value for usable second hand, obsolete and scrap materials.

(d) Insurance fund

Certain System components are self-insured for various risks, with a separately-invested fund being maintained. The provision for insurance represents the estimated amount of self-insured losses to be settled.

(e) Properties

Accounting for railway and telecommunications properties is carried out in accordance with rules issued by the National Transportation Agency of Canada and the Canadian Radio-television and Telecommunications Commission respectively (Canadian properties), and the Interstate Commerce Commission (United States properties). Generally, major additions and replacements are capitalized and interest costs are charged to expense.

The cost of depreciable railway and telecommunications assets retired or disposed of, less salvage, is charged to accumulated depreciation, in accordance with the group plan of depreciation. Other depreciable assets retired or disposed of are accounted for in accordance with the unit plan whereby gains or losses are taken into income as they occur.

The Company follows the successful efforts method of accounting for its oil and gas operations whereby the acquisition costs of oil and gas properties, the costs of successful exploratory wells and the costs of drilling and equipping development wells are capitalized.

(f) Depreciation

Depreciation is calculated at rates sufficient to write off properties over their estimated useful lives, generally on a straight-line basis. For railway and telecommunications properties, rates are authorized by the National Transportation Agency of Canada, the Canadian Radio-television and Telecommunications Commission and the Interstate Commerce Commission. The rates for significant classes of assets are as follows:

	Annual Rate
Ties	2.46%-2.71%
Rails	1.93%
Other track material	2.23%-2.83%
Ballast	3.27%
Road locomotives	4.30%
Freight cars	1.73%-3.18%

Acquisition costs of oil and gas properties are amortized on a straight-line basis over the term of the lease until such time as the properties are determined to be productive or judged to be impaired. Acquisition costs of productive properties and costs of successful exploratory drilling and of drilling and equipping development wells are charged against income on the unit-of-production method based upon proven reserves of oil and gas. Exploratory dry hole and acquisition costs judged to be impaired are charged against income in the current period. Other exploratory expenditures are charged against income as incurred.

(g) Transportation revenues

Transportation revenues are generally recognized on completion of movements, with interline movements being treated as complete when the shipment is turned over to the connecting carrier. Costs associated with movements not completed are deferred.

(h) Pensions

Pension costs are determined periodically by independent actuaries. Pension expense is charged annually to operations and comprises the total of the following:

— the cost of pension benefits provided in exchange for employees' services rendered during the year, and

— amortization of past service costs over the expected average remaining service life of the employee group covered by the Plans.

The Pension plans are funded through contributions determined in accordance with the accrued benefit actuarial cost method.

(i) Foreign exchange

The Company's foreign operations are classified as integrated and are translated and accounted for on the following bases. Current assets (excluding material and supplies), current liabilities and long-term debt are translated at the rates in effect at the balance sheet date, whereas all other assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates during the year except for depreciation which is translated at exchange rates prevailing when the related properties were acquired.

CANADIAN NATIONAL RAILWAY SYSTEM—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—*Continued*

The Company's own foreign denominated assets and liabilities are accorded similar treatment. Revenues and expenses are translated at rates prevailing at the time of the transactions except for revenues designated as a hedge against repayment of foreign denominated long-term debt which are translated at the rate in effect at the inception of the debt.

Currency gains and losses are reflected in net income for the year, except for unrealized foreign currency losses on long-term debt. The Company has designated future U.S. dollar revenue streams as a hedge against the repayment of most of its long-term debt denominated in U.S. dollars, and has thus deferred reflecting the related unrealized foreign currency translation losses in net income until the earlier of the debt repayment or the expiry of the hedge. Unrealized foreign currency losses related to long-term debt denominated in U.S. dollars not covered by the hedge are deferred and amortized over the remaining life of the debt. Such deferred amounts are included in the Consolidated Balance Sheet as part of Other Assets and Deferred Charges.

(j) Leases

Leases which satisfy the criteria for capital leases and which have been entered into after 1981 have been capitalized. Other leases entered into prior to 1982, satisfying the criteria for capital leases, have been recorded as operating leases.

2. Extraordinary items

During 1988 the Company disposed of CN Hotels, the two subsidiary telephone companies and CNCP Telecommunications, with the latter sale including Telecommunications Terminal Systems. In 1987 the Dockyard was disposed of, as was CN Route in 1986.

Asset write-downs to reflect impairments occurred affecting CNCP Telecommunications in 1988, TerraTransport in 1987 and Dockyard in 1986.

In 1988, TerraTransport incurred closure costs and in 1986 CN Route was similarly affected.

The financial effect of these transactions together with their effect on the Company's income tax position is as follows:

	Year ended December 31		
	1988	1987	1986
	(in thousands of dollars)		
Net gain (loss) on disposal of business units	285,113	4,900	(18,420)
Less related income tax effect	(114,958)	(2,381)	
	170,155	2,519	(18,420)
Loss on write-down of assets	(62,683)	(43,075)	(4,900)
Less related income tax effect	28,051	20,933	
	(34,632)	(22,142)	(4,900)
Closure cost of discontinued operations	(92,300)		(26,900)
Less related income tax effect	41,304		
	(50,996)		(26,900)
Reduction in income taxes on application of prior years' losses	141,057	56,364	
	225,584	36,741	(50,220)

3. Investments

	Percentage of Voting Interest	December 31 1988	1987
		(in thousands of dollars)	
Entities accounted for by equity method			
CNCP Niagara-Detroit Partnership	50%	20,141	14,757
The Toronto Terminals Railway Company	50%	10,682	10,682
CN Hotels			120,025
Other		18,594	13,791
		49,417	159,255
Other companies and investments, at cost less provisions for impairment where applicable		26,671	11,604
Total		76,088	170,859

4. Properties

	December 31, 1988			December 31, 1987		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
	(in thousands of dollars)					
CN Rail	8,278,744	3,099,146	5,179,598	8,150,866	2,953,747	5,197,119
Grand Trunk Corporation	529,510	144,386	385,124	531,609	142,715	388,894
Entreprises group						
CN Exploration	103,048	45,325	57,723	94,480	35,627	58,853
CN Real Estate	107,784	17,245	90,539	78,881	16,204	62,677
Other	78,849	21,393	57,456	79,152	19,985	59,167
Discontinued operations						
CN Communications				754,340	308,488	445,852
	9,097,935	3,327,495	5,770,440	9,689,328	3,476,766	6,212,562
Amounts included above with respect to Canadian Government Railways entrusted to the Company by the Government of Canada	1,026,898	540,718	486,180	1,073,992	564,974	509,018

At December 31, 1988 the gross value of assets under capital leases included above was $108.4 million (1987 — $132.5 million) and related accumulated amortization thereon amounted to $12.1 million (1987 — $14.1 million).

CANADIAN NATIONAL RAILWAY SYSTEM—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—*Continued*

5. Long-term debt

	Maturity	Currency in which payable	December 31 1988	1987
			(in thousands of dollars)	
Bonds, Debentures and Notes				
Canadian National 14 5/8% 10 Year Notes	Dec. 1, 1991	United States		117,817
Canadian National 11 3/8% 8 Year Notes	June 11, 1993	Canadian	100,000	100,000
Canadian National 9 7/8% 8 Year Notes	Mar. 18, 1994	Canadian	100,000	100,000
Canadian National 12 1/2% 10 Year Notes	Apr. 15, 1995	Canadian	100,000	100,000
Canadian National 6 1/2% 10 Year Japanese Yen Notes (a)	Mar. 26,1996	Canadian	70,000	70,000
Canadian National 9 3/8% 10 Year Notes	Oct. 1, 1996	Canadian	100,000	100,000
Canadian National 9 1/4% 20 Year Sinking Fund Debentures	Mar. 15, 1998	United States	80,120	89,022
Canadian National 5 3/8% 15 Year Swiss Franc Bonds (b)	Aug. 22, 2000	Canadian	98,617	98,617
Canadian National 8 7/8% 15 Year Notes	May 21, 2001	Canadian	150,000	150,000
Canadian National 8 3/8% 25 Year Sinking Fund Debentures	July 1, 2002	United States	68,858	75,124
Canadian National 9.70% 25 Year Sinking Fund Debentures	July 15, 2004	United States	165,342	174,940
Canadian National 13% 20 Year Sinking Fund Debentures	Nov. 15, 2004	Canadian	93,464	96,732
Canadian National 12 1/4% 20 Year Sinking Fund Debentures	May 1, 2005	Canadian	125,000	125,000
Canadian National 14% 25 Year Sinking Fund Debentures	Jan. 15, 2006	United States	106,800	178,783
Canadian National 15% 25 Year Sinking Fund Debentures	June 1, 2006	United States	103,244	181,238
Canadian National 16 1/4% 25 Year Sinking Fund Debentures	Mar. 1, 2007	United States	98,801	183,053
Canadian National 14 3/4% 30 Year Sinking Fund Debentures	Sept. 1, 2012	United States	83,930	247,984
Canadian National 12% 30 Year Sinking Fund Debentures	Mar. 15, 2013	United States	122,548	122,548
Buffalo and Lake Huron 5 1/2% 1st Mortgage Bonds	Perpetual	Sterling	795	795
Buffalo and Lake Huron 5 1/2% 2nd Mortgage Bonds	Perpetual	Sterling	1,228	1,228
Total bonds, debentures and notes			1,768,747	2,312,881
Government of Canada loan (c)			173,432	184,765
Other				
Amounts owing under equipment purchase agreements (d)		United States	116,906	137,916
Syndicated loan (e)		Canadian	42,610	42,610
Capital lease obligations (f)		Various	97,052	119,037
Term loan (g)		United States	2,107	2,634
Adjustment to current exchange rate (see Note 1 i))			12,885	143,861
Total other			271,560	446,058
			2,213,739	2,943,704
Less: in-substance defeasance (h)			193,753	
Current portion of long-term debt			57,254	208,649
Unamortized discount and other			5,124	6,724
			256,131	215,373
Long-term debt			1,957,608	2,728,331

(a) The Company borrowed $70.0 million at an all-in cost of 10.25% by means of a Euro-yen public note issue and a currency swap.

(b) The Company borrowed $98.6 million at an all-inclusive cost of 11.17% by means of a public bond issue in Switzerland and a currency swap.

(c) The Government of Canada loan bears interest at 8 3/4% per annum and is payable in equal semi-annual payments of $13.63 million covering principal and interest to June 30, 1998.

(d) Secured by rolling stock and payable by semi-annual or quarterly instalments over various periods to 2000 at interest rates ranging from 8% to 17 3/4%. As at December 31, 1988, the principal amounts are payable as U.S. $101.0 million (December 31, 1987 — U.S. $121.1 million).

(e) The Company borrowed $42.6 million at an all-inclusive cost of 11.535% by means of a yen syndicated loan and currency swap.

(f) Interest rates for these leases range from approximately 7 7/8% to 14 1/2% with expiry dates occurring during the years 1989 through 2004. The imputed interest on these leases amounts to $92.6 million (1987—$107.0 million).

(g) Repayable by annual principal instalments of $400,000 over a five year term, to August 15, 1992. The interest is charged at favourable varying rates.

(h) Certain of the Company's long-term debt is considered to be extinguished as a result of the Company's having placed in irrevocable trusts, government securities sufficient to satisfy the interest and maturing principal requirements of the specific debt obligations involved.

(i) Principal repayments, including sinking fund repayments, repurchase arrangements and capital lease repayments, on debt outstanding at December 31, 1988, are as follows:

	Year ending December 31
	(in thousands of dollars)
1989	57,254
1990	68,056
1991	72,872
1992	60,772
1993	165,634
1994-1998	743,943
1999-2003	506,837
2004-2008	247,262
2009-2013	87,279

CANADIAN NATIONAL RAILWAY SYSTEM—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—*Continued*

6. Shareholder's Equity

(a) Capital stock

The capital stock of Canadian National Railway Company, $2,278,866,774, consists of 5,868,786 common shares of no par value authorized, issued and outstanding which are owned by the Government of Canada.

(b) Retained earnings

Under its governing legislation, the Company is required to pay to the Receiver General for Canada a dividend equal to 20% of net income for the year or such greater percentage as the Governor in Council may direct. Accordingly, a dividend representing 20% of the net income for the year, has been accrued and is included in Other Current Liabilities. The dividends accrued on 1985 and 1987 income, which had not yet been paid, have been reversed and transferred to retained earnings on the basis of a Treasury Board of Canada decision dated December 15, 1988.

7. Major commitments

(a) Leases

(i) The Company's commitments as at December 31, 1988, under leases, excluding those which have been capitalized and for which the lease obligations are recorded as long-term debt (see Note 5), are as follows:

	Pre-1982 Capital Leases	Operating Leases
	Year ending December 31	
Non-cancellable leases	(in thousands of dollars)	
1989	30,366	101,807
1990	13,170	74,127
1991	5,682	66,802
1992	4,256	59,575
1993	1,968	56,527
1994-1998	5,431	187,904
1999-2003	2,425	69,296
Thereafter	132	4,096
Total minimum lease payments	63,430	620,134
Less amount representing imputed interest	12,289	
Present value of net minimum lease payments under capital leases	51,141	

A significant portion of the leases is in respect of railway rolling stock and many of them provide renewal options and an option to purchase the property at fair market value at the end of the lease term.

(ii) Rental expenses under all lease arrangements which have not been capitalized were:

	1988	1987	1986
	Year ended December 31		
	(in thousands of dollars)		
Total expenses	154,719	173,329	178,049
Expenses under pre-1982 capital leases included in total expenses	35,248	43,188	46,825

(iii) Increases in income, assets and liabilities in the consolidated financial statements, which would have arisen if leases entered into prior to 1982 and which satisfied the criteria for capital leases had been capitalized, are as follows:

	1988	1987	1986
	Year ended December 31		
	(in thousands of dollars)		
Net increase in income	11,552	13,132	11,609
Increase in assets			
Properties			
Leased properties under capital leases	169,296	174,101	194,092
Less accumulated amortization	138,093	127,481	128,565
	31,203	46,620	65,527
Other assets and deferred charges			
Unamortized deferred exchange loss	3,671	10,172	17,508
	34,874	56,792	83,035
Increase in current liabilities			
Present value of obligations under capital leases	25,964	30,900	33,935
Increase in non-current liabilities			
Present value of obligations under capital leases	47,216	73,726	101,622
Adjustment to current exchange rate (see Note 1(i))	3,925	11,456	22,324
	51,141	85,182	123,946
Less current portion	25,964	30,900	33,935
	25,177	54,282	90,011

(b) Other

The Company has commitments at December 31, 1988, for capital expenditures of $26.6 million for railway ties and $26.5 million for rail. In addition, the Company at that date was committed to suppliers for new locomotives having a value of $188.9 million, expected to be obtained under lease arrangements.

8. Subsidies

Revenues include the following subsidies:

	1988	1987	1986
	Year ended December 31		
	(in thousands of dollars)		
Government of Canada			
(a) Payments under the Railway Act paid under authority of that Act and the related Appropriation Act in respect of certain uneconomic operations, services and prescribed rates which railways are required by the Railway Act to maintain	48,854	37,661	39,641
(b) Maritime Freight Rates Act and Atlantic Region Freight Assistance Act subsidies	19,971	18,520	18,735
(c) Sundry	2,510	1,884	2,502
Other assistance	391	134	163
	71,726	58,199	61,041

CANADIAN NATIONAL RAILWAY SYSTEM—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—*Continued*

9. Pensions

The Company has retirement benefit plans covering substantially all its employees under which they are entitled to benefits at retirement age generally based on compensation and length of service and/or contributions.

The actuarial valuations as at December 31, 1987, revealed a consolidated actuarial liability of $6.3 billion and a consolidated actuarial asset value of $5.3 billion. It is estimated that, as at December 31, 1988, these amounts could approximate $6.5 billion and $5.9 billion respectively. Subsequent actuarial valuations will determine the actual values at that date.

Annual pension costs were:

Year ended December 31		
1988	1987	1986
(in thousands of dollars)		
165,784	200,731	194,425

10. System interest expense

	Year ended December 31		
	1988	1987	1986
	(in thousands of dollars)		
Interest			
Total interest on long-term debt	318,297	367,142	380,977
Interest on short-term borrowings	2,431	7,175	6,889
Interest income	(20,269)	(2,435)	(5,567)
	300,459	371,882	382,299

11. Income taxes:

(a) The Company has timing differences of approximately $100 million which are available to reduce taxable income of future years.

(b) Investment tax credits are also available to reduce future income taxes otherwise payable until the related year of expiry:

Year of expiry	(in millions of dollars)
1993	25.9
1994	33.9
1995	29.7
1996	18.9
1997	14.0
1998	7.7

(c) The Company's provision for income taxes is made up as follows:

	Year ended December 31		
	1988	1987	1986
	(in thousands of dollars)		
Provision for (recovery of) income taxes based on combined basic Canadian federal and provincial tax rate for 1988 of 44.7% (1987—48.6%, 1986—49.8%)	70,206	77,701	(17,958)
Increase (decrease) in taxes resulting from			
Non-taxable portion of capital gain on disposals of discontinued operations			(28,702)
Non-allowable portion of capital loss on early extinguishment of debt	17,670		
Capital losses not allowed for current year	12,726		
Non-allowable foreign exchange loss on conditional sale agreements	686	1,347	1,535
Profit on sale of land	(6,060)	(6,785)	(2,528)
Unapplied losses			44,318
Other	4,575	3,775	3,335
Actual provision for income taxes resulting in an effective tax rate for 1988 of 63.6% (1987—47.6%, 1986—Nil)	99,803	76,038	

12. Segmented information

(a) Geographic areas

Virtually all of the System's operations and assets are within Canada with the exception of Grand Trunk Corporation which operates in the United States.

(b) International traffic

In addition to the revenue generated by Grand Trunk Corporation, the System derives revenue from traffic originating or terminating on railroads in the United States. In 1988, such revenues approximated $668 million (1987 — $612 million, 1986 — $587 million).

(c) Revenues by division

	December 31		
	1988	1987	1986
	(in thousands of dollars)		
CN Rail	3,792,115	3,732,294	3,669,380
Grand Trunk Corporation	477,816	486,044	531,399
Entreprises group			
CN Exploration	28,204	37,293	33,869
CN Real Estate	57,188	54,102	35,157
Other	56,004	40,782	39,821
Discontinued operations			
TerraTransport	1,459	4,259	8,277
CN Communications	236,884	296,250	298,053
CN Hotels	26,524	135,010	126,131
Dockyard			8,786
CN Route			123,643
	4,676,194	4,786,034	4,874,516

CANADIAN NATIONAL RAILWAY SYSTEM—*Concluded*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—*Concluded*

(d) Identifiable assets by division

	December 31		
	1988	1987	1986
	(in thousands of dollars)		
CN Rail	6,006,443	6,203,938	6,301,242
Grand Trunk Corporation	611,912	623,715	630,428
Entreprises group			
CN Exploration	65,239	67,157	68,583
CN Real Estate	141,140	93,603	79,253
Other	81,301	77,685	76,560
Discontinued operations			
TerraTransport		9,874	52,304
CN Communications		517,677	497,921
CN Hotels			136,323
	6,906,035	7,593,649	7,842,614

(e) Capital expenditures and depreciation by division

	Year ended December 31					
	Capital Expenditures*			Depreciation		
	1988	1987	1986	1988	1987	1986
	(in thousands of dollars)					
CN Rail	283,723	355,146	356,746	234,794	211,045	212,305
Grand Trunk Corporation	14,370	12,554	21,990	14,157	14,473	18,773
Entreprises group						
CN Exploration	9,868	9,147	10,859	9,798	10,723	13,093
CN Real Estate	28,560	17,981	13,720	1,102	1,027	815
Other	185	340	364	1,880	1,937	1,884
Discontinued operations						
TerraTransport		589	5		2,461	5,964
CN Communications	49,613	68,094	58,129	31,789	45,085	47,061
CN Hotels		18,207	22,393		6,023	5,278
Dockyard			(134)			1,004
CN Route						5,174
	386,319	482,058	484,072	293,520	292,774	311,351

* Represents additions to properties.

13. Other matters

(a) The Company carries on ordinary business transactions with various entities controlled by the Government of Canada on the same terms and conditions as current transactions with unrelated parties.

In addition, the Company provides, under contractual arrangements, rail transportation and maintenance services to the Government of Canada and to entities controlled by the latter. The revenue derived from such services rendered in 1988 aggregated $103.3 million (1987—$148.2 million, 1986—$203.0 million).

(b) Following enactment of the Western Grain Transportation Act, which became effective on January 1, 1984, the Government of Canada, in order to minimize the cost to grain shippers, pays a portion of the cost of shipping grain. Amounts received from the Government of Canada under the Western Grain Transportation Act amounted to $416.0 million in 1988 (1987—$435.3 million, 1986 —$378.0 million), a reflection of the volume of grain handled.

(c) Commencing in 1977, the Government of Canada has agreed to pay to the Company, by way of capital grants not exceeding $557.9 million, certain amounts with respect to expenditures incurred in carrying out rehabilitation programs for branch lines in Western Canada. Total payments received up to December 31, 1988, amounted to $469.3 million of which $12.3 million was received in 1988 (1987—$25.6 million, 1986—$34.5 million).

14. Reclassification of comparative figures

During 1988, changes were made to improve the classification of certain items and for comparative purposes the 1987 and 1986 figures have been reclassified.

SUMMARY PAGE

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LTD.

MANDATE

To collect monies due to it from the sale of eight steamships to Cuban interests.

BACKGROUND

The corporation, which provided a steamship service to the West Indies, has been inactive since 1958 when its fleet of ships was sold to Banco Cubana of Havana. In 1959, the corporate management was transferred to federal government officials for the purpose of collecting the proceeds from the sale. An irrevocable letter of credit issued through the Bank of America to cover the final principal payment was not honoured because of the imposition of the Cuban Assets Control Regulations by the U.S. government on July 3, 1963. The sole purpose of maintaining the company has been to collect the outstanding principal plus interest, totalling $1.3 million as of December 31, 1988. Authority to dissolve the corporation was given in the *Crown Corporations Dissolution Authorization Act*, which received Royal Assent on October 29, 1985.

CORPORATION DATA

HEAD OFFICE	Tower C Place de Ville 330 Sparks Street Ottawa, Ontario K1A 0N5
STATUS	— Schedule III, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Benoît Bouchard, P.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1927; created by CNR in 1927 under the *Dominion Companies Act* and continued under the *Canada Business Corporations Act*, November 21, 1978.
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	N. Van Duyvendyk
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1988	**1987**	**1986**	**1985**
At the end of the year				
Total Assets	1.3	1.2	1.1	1.1
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	0.3	0.3	0.3	0.3
Equity of Canada	1.0	0.9	0.8	0.7
Cash from Canada in the year				
— budgetary	nil	nil	nil	nil

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS LTD.

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have examined the balance sheet of Canadian National (West Indies) Steamships Ltd. as at December 31, 1988 and the statement of income and retained earnings for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the corporation as at December 31, 1988 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Canada Business Corporations Act and the by-laws of the corporation.

Raymond Dubois, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
March 30, 1989

BALANCE SHEET AS AT DECEMBER 31, 1988

ASSETS	1988	1987
	$	$
Cash	1,405	1,496
Deposit with Receiver General for Canada	95,000	95,000
Blocked funds (Notes 2 and 3)	1,252,909	1,155,280
	1,349,314	1,251,776

LIABILITIES	1988	1987
	$	$
Account payable		30
Matured bonds—Unclaimed (Note 4)	14,025	14,025
Due to Canada (Note 5)	324,024	324,024
	338,049	338,079
EQUITY OF CANADA		
Capital stock		
Authorized and issued		
10 Class A shares without par value	976	976
Retained earnings	1,010,289	912,721
	1,011,265	913,697
	1,349,314	1,251,776

Approved by the Board of Directors:

N. VAN DUYVENDYK
Chairman

M. BRENNAN
Director

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS LTD.—*Concluded*

STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1988

	1988	1987
	$	$
Interest income	97,673	80,894
Filing fee and bank charges	105	43
Net income for the year	97,568	80,851
Retained earnings at beginning of the year	912,721	831,870
Retained earnings at end of the year	1,010,289	912,721

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988

1. Authority and activities

Canadian National (West Indies) Steamships Ltd. was incorporated in 1927 under the Dominion Companies Act and continued under the Canada Business Corporations Act. It is a parent Crown corporation named in Schedule III Part I to the Financial Administration Act. It ceased all active operations in 1957, at which time it sold its fleet of eight vessels to Cuban interests.

On October 29, 1985, Parliament passed the Crown Corporations Dissolution Authorization Act which authorized the Minister of Finance to dissolve the corporation.

An assignment has been prepared in which the corporation transfers to Her Majesty in Right of Canada all its rights and interests in, to or arising out of the letter of credit referred to in Note 2 below. However, this document has not yet been executed since the consent from BankAmerica International to this assignment and their acknowledgement that payment under the letter of credit will be made to Her Majesty in Right of Canada, have not yet been received.

Accordingly, the corporation remains to be dissolved and as such the blocked funds are still recorded as an asset of the corporation.

The dissolution process will be completed when the consent and acknowledgement are received from BankAmerica International.

2. Blocked funds

The final installment of $470,400 on the sale of the eight vessels to Cuban interests was due to be paid on August 19, 1963 by an irrevocable letter of credit issued through BankAmerica International (then known as Bank of America). However, on July 3, 1963, the United States Cuban Assets Control Regulations became effective and prohibited the Bank from honouring payment of the draft. Amendments to the Regulations, effective March 2, 1979 required blocked funds to be held in an interest-bearing account. At December 31, 1988, accrued interest amounted to $782,509 (1987—$684,880).

Since 1984, the BankAmerica International has withheld 15% of interest earned on the funds blocked at the Bank by the Cuban Asset Regulations as a tax on non-resident earnings. To date $82,377 has been withheld including interest on the withheld funds of $19,067. In management's opinion, the tax exempt status of the corporation is preserved in the United States by the Tax Convention of 1980, as amended. Therefore, amounts withheld and the interest forgone thereupon have been included in income and assets and accordingly no liability recorded.

3. Subsequent event—Blocked funds

As at December 31, 1988, negotiations to obtain the release of the blocked funds were stalemated. Thereafter, in March, 1989, legal proceedings were initiated by the corporation to recover a portion of the said funds which had been specifically located and identified as being on deposit at the Bank of America Canada in Toronto. An Order of the Supreme Court of Ontario was served on the Bank of America Canada in Toronto, ordering the said Bank to pay all such funds on deposit with the said Bank into Court, to be therein invested pending the final outcome of the proceedings instituted. No additional information was available as of March 30, 1989.

In the event that the corporation is unsuccessful in its attempt to obtain the funds, it is the opinion of management, based on legal counsel, that these funds will be collected when the Regulations are repealed by the United States.

A waiver of the application of the statute of limitations has been obtained until January 1, 1991, and further extensions will be obtained as required.

4. Matured bonds—Unclaimed

The matured bonds have been unclaimed since March 1, 1955 and as a result of the statute of limitations there is no legal obligation to redeem them. However, the corporation intends to honour any of the outstanding bonds should they be presented.

5. Due to Canada

The advances from Canada bear no interest and are repayable when the blocked funds are received.

SUMMARY PAGE

CANADIAN PATENTS AND DEVELOPMENT LIMITED

MANDATE

To maximise benefits to Canada by promotion and use of innovations produced on behalf of the Crown by publicly funded institutions and agencies and by others.

BACKGROUND

The corporation makes available to the public the industrial and intellectual property resulting from government-funded research and development. It makes licensing arrangements with industry and monies received thereby are used to cover most of its operating expenses. Awards are paid to inventors under the *Public Service Inventions Act*.

CORPORATION DATA

HEAD OFFICE	275 Slater Street Ottawa, Ontario K1A 0R3
STATUS	— Schedule III, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Harvie Andre, P.C., M.P.
DEPARTMENT	Industry, Science and Technology
YEAR AND MEANS OF INCORPORATION	1947; by letters patent under the *Companies Act*; continued under the *Canada Business Corporation Act* in 1979.
CHIEF EXECUTIVE OFFICER	Normand Plante
CHAIRMAN	Jacques A. Léger
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) Financial years ending March 31.

	1989	1988	1987	1986
At the end of the period				
Total Assets	1.5	1.2	0.8	1.1
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	0.5	0.3	negl.	0.4
Cash from Canada in the period				
— budgetary	1.2	1.1	0.5	0.4
— non-budgetary	nil	nil	nil	nil

CANADIAN PATENTS AND DEVELOPMENT LIMITED

AUDITOR'S REPORT

TO THE MINISTER OF REGIONAL INDUSTRIAL EXPANSION

I have examined the balance sheet of Canadian Patents and Development Limited as at March 31, 1989 and the statements of operations and surplus and changes in cash resources for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Canada Business Corporations Act and by-laws of the Corporation.

Raymond Dubois, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 9, 1989

BALANCE SHEET AS AT MARCH 31, 1988

ASSETS	1988	1987
	$	$
Current		
Cash	204,978	190,223
Term investments	447,999	525,000
Accounts receivable	796,306	468,437
Accrued interest	5,946	5,514
Prepaid expenses	9,816	18,436
	1,465,045	1,207,610
Industrial and intellectual property rights (Notes 2, 3 and 5)	1	1
Experimental equipment (Notes 2 and4)	1	1
	1,465,047	1,207,612

LIABILITIES	1988	1987
	$	$
Current		
Accounts payable and accrued liabilities	680,671	581,909
Royalties received in advance	82,375	95,992
	763,046	677,901
Provision for employee termination benefits	241,151	204,683
	1,004,197	882,584
EQUITY OF CANADA		
Capital stock		
Authorized—10,000 shares without par value		
Issued—5,000 shares fully paid	296,199	296,199
Surplus	164,651	28,829
	460,850	325,028
	1,465,047	1,207,612

Approved by the Board:

NORMAND PLANTE
Director

ROSLYN TAKEISHI
Director

CANADIAN PATENTS AND DEVELOPMENT LIMITED—*Continued*

STATEMENT OF OPERATIONS AND SURPLUS FOR THE YEAR ENDED MARCH 31, 1988

	1988	1987
	$	$
Revenue		
Royalties	1,797,971	1,707,938
Service charges under agency agreements	110,946	74,976
Interest on investments	73,903	40,347
Interest on overdue accounts	15,687	10,867
Miscellaneous	1,586	9,283
	2,000,093	1,843,411
Expenses		
Salaries and employee benefits	1,454,056	1,232,341
Industrial and intellectual property agents' fees and related expenses, for obtaining and maintaining proprietary protection (Note 5)	563,203	573,131
Accomodation, equipment and other rentals	241,399	214,012
Professional and special services	207,334	43,393
Office supplies, printing, furnishings and equipment	125,548	87,722
Travel and removal	121,136	46,194
Awards to inventors	119,884	125,193
Costs of licensing rights	112,813	130,044
Legal fees	77,631	70,010
Communications	43,817	36,970
Provision for doubtful accounts	33,574	48,810
Miscellaneous	9,876	7,971
	3,110,271	2,615,791
Cost of operations	1,110,178	772,380
Parliamentary appropriation	1,246,000	1,113,000
Excess of parliamentary appropriation over cost of operations for the year	135,822	340,620
Surplus (deficit) at beginning of the year	28,829	(311,791)
Surplus at end of the year	164,651	28,829

STATEMENT OF CHANGES IN CASH RESOURCES FOR THE YEAR ENDED MARCH 31, 1988

	1988	1987
	$	$
Cash used in operating activities		
Cost of operations	1,110,178	772,380
Items not requiring cash		
Provision for employee termination benefits	(36,468)	(12,377)
	1,073,710	760,003
Cash used in (provided by) non-cash working capital components		
Accounts receivable	327,869	(43,665)
Other current assets	(8,188)	9,115
Accounts payable and accrued liabilities	(98,762)	(52,726)
Royalties received in advance	13,617	28,234
	234,536	(59,042)
Payment of employee termination benefits		19,648
Cash used in operating activities	1,308,246	720,609
Cash provided by financing activities		
Parliamentary appropriation	1,246,000	1,113,000
Increase (decrease) in cash resources	(62,246)	392,391
Cash and short-term investments at beginning of year	715,223	322,832
Cash and short-term investments at end of year	652,977	715,223

NOTES TO FINANCIAL STATEMENTS MARCH 31, 1988

1. Authority and operations

Canadian Patents and Development Limited is a Crown corporation named in Part I of Schedule III to the Financial Administration Act and is incorporated under the Canada Business Corporations Act. The Corporation was established to make available to the public, through licensing arrangements with industry, the industrial and intellectual property which results from publicly-funded research and development.

The Corporation receives and processes industrial and intellectual property under arrangements with federal government departments, Crown corporations and agencies, universities, and other publicly-financed institutions. Suitable protection is sought in Canada and other countries for such property in instances where there is a promise of commercial use. In respect of money received from the exploitation of such property, the Corporation pays awards to public servants under the Public Servants Inventions Act and makes payments to other originators of such property in accordance with the agreements entered into with them.

2. Significant accounting policies

Industrial and intellectual property rights

Industrial and intellectual property rights are recorded at a nominal value of $1. The net cost of acquisition, protection and maintenance of industrial and intellectual property rights is charged to operations as incurred.

CANADIAN PATENTS AND DEVELOPMENT LIMITED—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1988—*Concluded*

Experimental equipment

Experimental equipment is recorded at a nominal value of $1. The cost of this equipment is charged to operations in the year of acquisition.

Employee termination benefits

Employees are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these benefits is recorded as the benefits accrue to the employees.

Pension plan

Employees of the Corporation are covered by the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contributions to the cost of the Plan under present legislation are limited to an amount equal to the employees' contributions on account of current service. These contributions represent the total pension obligations of the Corporation and are recognized in the accounts on a current basis. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account or with respect to charges to the Consolidated Revenue Fund for indexation payments under the Supplementary Retirement Benefits Act.

3. Industrial and intellectual property rights

The accumulated cost of current inventory of unexpired patent and other rights in respect of industrial and intellectual property amounts to $4,435,892 (1988—$3,839,430).

4. Experimental equipment

The accumulated cost of experimental equipment purchased under active development contracts and held by a licensee amounts to $123,500 (1988—$123,500).

During 1987-88, the Corporation acquired experimental equipment from another federal government entity at no cost. Any proceeds resulting from the sale of this equipment will be credited to revenue in the year of disposal.

5. Industrial and intellectual property agents' fees and related expenses, for obtaining and maintaining proprietary protection

	1988	1987
	$	$
Fees and related expenses	797,318	867,627
Less: recoveries	234,115	294,496
	563,203	573,131

6. Lease commitments

Under a lease agreement dated August 24, 1988 the Corporation pays an annual rent of $169,938 for accommodation. The period covered by this agreement is November 1, 1988 to October 31, 1993. The terms of the lease also require payment of certain operating costs over the lease period.

SUMMARY PAGE

CANADIAN SALTFISH CORPORATION

MANDATE

To regulate interprovincial and export trade in saltfish from participating provinces (Quebec - Lower North Shore, and Newfoundland) to improve earnings of primary producers of cured cod fish.

BACKGROUND

By its enabling legislation, the corporation must buy all saltfish offered to it which is of reasonable quality, and must conduct its operations on a self-sustaining basis without appropriations.

CORPORATION DATA

HEAD OFFICE	Saltfish Building Newfoundland Drive P.O. Box 9440 St. John's, Newfoundland A1A 2Y3
STATUS	— Schedule III, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Thomas E. Siddon, P.C., M.P.
DEPARTMENT	Fisheries and Oceans
YEAR AND MEANS OF INCORPORATION	1970; by the *Saltfish Act* (R.S.C. 1985, c. S-4).
CHIEF EXECUTIVE OFFICER	W.R. Moyse
CHAIRMAN	James G. Barnes
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) Financial years ending March 31.

	1989	1988	1987	1986
At the end of the period				
Total Assets	32.5	27.6	24.4	16.6
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	41.0	28.9	24.0	17.4
Equity of Canada	(10.7)	(5.4)	(4.2)	(5.4)
Cash from Canada in the period				
— budgetary	nil	nil	nil	nil
— non-budgetary, net	12.2	4.9	6.6	5.1

CANADIAN SALTFISH CORPORATION

THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 1989
WERE NOT AVAILABLE AT DATE OF PRINTING

SUMMARY PAGE

THE CANADIAN WHEAT BOARD

MANDATE

The Board's mandate is to market wheat and barley grown in western Canada in the best interests of western Canada's grain producers. It administers the *Prairie Grain Advance Payments Act.*

BACKGROUND

The Board was established in 1935 by Act of Parliament and is now responsible for all exports of wheat and barley grown in a designated area which includes the prairie provinces and small parts of British Columbia. It is also responsible for sales of these grains for human consumption in Canada. The Board may sell domestic feed grains, but in general these sales are handled by producers themselves or by the private trade. The Board does not own or operate grain handling facilities. Co-operative and private companies handle Board grain as agents. The Board issues a government-guaranteed initial payment when the producer delivers grain. Receipts are pooled, and a final payment net of marketing costs is made after the full year's returns, by grain and grade, have been calculated. Deficits are rare but, if they occur they are, by statute, a charge upon the Consolidated Revenue Fund of Canada. The Board negotiates directly with customers, or through Accredited Exporters. Most sales are cash, but the Board does offer credit at commercial rates for up to three years if the credit is guaranteed by the Federal Government.
The Board's longstanding mandate to market oats was ended by Orders in Council (PC 1989-986 and PC 1989-987) of May 27, 1989.

CORPORATION DATA

HEAD OFFICE	423 Main Street P.O. Box 816 Winnipeg, Manitoba R3C 2P5
STATUS	An agent of Her Majesty; exempted from the provisions of Divisions I to IV of Part X of the *Financial Administration Act.*
APPROPRIATE MINISTER	The Honourable Charles J. Mayer, P.C., M.P. Minister of Western Economic Diversification and Minister of State for Grains and Oilseeds.
YEAR AND MEANS OF INCORPORATION	1935; by *The Canadian Wheat Board Act* (R.S.C. 1985, c. C-24).
CHIEF EXECUTIVE OFFICER	W. Esmond Jarvis
AUDITOR	Deloitte Haskins & Sells

FINANCIAL SUMMARY ($ million) Financial year ending July 31.

	1988	1987	1986	1985
At the end of the period				
Total Assets	4,103	4,836	5,234	5,210
Obligations to the private sector	3,663	4,684	5,060	4,694
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	nil	nil	nil	nil
Cash from Canada in the period				
— budgetary	150	245	58	131
— non-budgetary	nil	nil	nil	nil

THE CANADIAN WHEAT BOARD

AUDITORS' REPORT

TO THE CANADIAN WHEAT BOARD

We have examined the balance sheet of The Canadian Wheat Board as at July 31, 1988, and the statements of operations for the 1987-88 pool accounts for wheat, amber durum wheat, oats, designated oats, barley and designated barley for the period August 1, 1987 to completion of operations on September 30, 1988, the statement of administrative and general expenses and allocations to operations for the year ended July 31, 1988, the statement of advance payments to producers under the Prairie Grain Advance Payments Act as at July 31, 1988, and the statement of special account transactions for the year ended July 31, 1988. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Board as at July 31, 1988, and the results of operations for the periods shown, in accordance with generally accepted accounting principles consistently applied.

Deloitte, Haskins & Sells
Chartered Accountants

Winnipeg, Canada
March 14, 1989

BALANCE SHEET AS AT JULY 31, 1988
(with prior year figures for comparison)

EXHIBIT I

ASSETS	1988	1987
	$	$
Stocks of grain		
Wheat	51,855,201	793,856,772
Durum	119,446,586	153,585,284
Oats	12,127,201	12,640,197
Designated Oats	298,140	384,915
Barley		88,731,182
Designated Barley	14,530,982	21,915,448
	198,258,110	1,071,113,798
Bills of exchange plus accrued interest (Note 2)	3,572,718,038	3,466,552,320
Accounts receivable (Note 3)		
Amounts due on completed sales	23,425,755	39,083,941
Sundry	51,831,998	45,840,454
Prairie Grain Advance Payments Act	116,665,207	23,665,258
Due from the Government of Canada re deficit on Pool Account Operations		
1986-87 Pool Account		
Barley		92,543,884
Designated Barley		17,970,279
The Canadian Wheat Board Building, Winnipeg, at cost less depreciation	1,721,640	1,831,777
Covered hopper cars, at cost less depreciation (Note 4)	63,568,184	66,759,624
Office furniture, equipment and automobiles, at cost less depreciation	977,190	1,010,834
Deferred charges—Trade (Note 5)	71,391,158	
Deferred and prepaid expenses	1,973,456	9,346,640
	4,102,530,736	4,835,718,809

LIABILITIES	1988	1987
	$	$
Liability to bank (Note 6)	3,610,793,737	3,851,899,419
Debentures payable (Note 7)		66,350,000
Liability to agents for grain purchased from producers (Note 8)	11,265,153	658,389,287
Liability to agents for deferred cash tickets (Note 9)	40,452,058	107,072,682
Accrued expenses and accounts payable (Note 10)	31,152,492	84,830,034
Outstanding adjustment and final payment cheques to producers		
Wheat	2,087,570	101,607
Durum	600,940	32,858
Oats	36,247	1,271
Designated Oats	432	391
Barley	165,107	35,300
Designated Barley	154,752	22,565
Special Account—Net balance of undistributed payment accounts (Note 11)	5,986,523	7,125,079
Provision for final payment expenses (Note 12)	885,912	2,342,578
Surpluses resulting from operations		
Pool Account		
Wheat	244,988,680	8,028,507
Durum	104,400,100	44,748,991
Oats	8,544,443	4,642,071
Designated Oats	1,165,968	96,169
Barley	19,805,777	
Designated Barley	20,044,845	
	4,102,530,736	4,835,718,809

W. E. JARVIS
Chief Commissioner

R. L. KRISTJANSON
Assistant Chief Commissioner

F. M. HETLAND
Commissioner

W. H. SMITH
Commissioner

R. H. KLASSEN
Commissioner

THE CANADIAN WHEAT BOARD—*Continued*

STATEMENT OF OPERATIONS

1987-88 POOL ACCOUNT—WHEAT
FOR THE PERIOD AUGUST 1, 1987, TO COMPLETION OF OPERATIONS ON SEPTEMBER 30, 1988
(with prior year figures for the 1986-87 Pool Account for comparison) EXHIBIT II

	1987-88		1986-87	
	Tonnes	Amount	Tonnes	Amount
		$		$
Wheat acquired				
Purchased from Producers at Board initial prices basis in store Thunder Bay or Vancouver	15,476,040	1,744,509,029	18,555,981	2,150,584,269
Net tonnes acquired from the adjustment of overages and shortages, etc., at country and terminal elevators at Board initial prices basis in store Thunder Bay or Vancouver	63,217	6,959,936	178,783	19,921,478
Purchased from prior year Pool Account—Wheat	564,443	68,458,164	1,861,457	244,206,898
	16,103,700	1,819,927,129	20,596,221	2,414,712,645
Wheat sold				
Completed sales to July 31 basis in store Thunder Bay, Vancouver or Churchill				
Domestic	957,760		916,987	
Export	14,756,905		13,045,777	
Weight losses in transit and in drying	2,279		19,039	
	15,716,944	2,083,059,719	13,981,803	1,728,115,439
Wheat stocks—Being Wheat stocks on hand at July 31 stated at the ultimate value received from the sale thereof, basis in store Thunder Bay, Vancouver or Churchill				
Completed sales for the period subsequent to July 31				
Domestic			355,537	
Export	386,756		5,694,438	
Sale to the subsequent Pool Account—Wheat			564,443	
	386,756	51,855,201	6,614,418	793,856,772
	16,103,700	2,134,914,920	20,596,221	2,521,972,211
Surplus on Wheat transactions		314,987,791		107,259,566
Operating costs				
Carrying charges				
Carrying charges on Wheat stored in country elevators		37,105,198		49,772,667
Storage on Wheat stored in terminal elevators		16,037,805		16,582,309
		53,143,003		66,354,976
Interest, bank charges and net interest on other Board accounts		(17,785,610)		(6,375,164)
Demurrage		(265,409)		1,770,643
Additional freight—Wheat shipped from country stations to terminal position		10,542,410		8,749,488
—Freight rate changes		(1,513,861)		825,363
Handling and stop-off on Wheat warehoused at interior terminals		1,080,148		(99,389)
Drying charges		52,664		3,724,128
Interest and depreciation on Wheat Board hopper cars		4,737,960		7,150,182
Wheat Board administrative and general expenses		20,007,806		17,130,832
		69,999,111		99,231,059
Surplus on operations of the Board on the Pool Account—Wheat, for the period from August 1, 1987, to September 30, 1988 (1986-87 October 31, 1987)		244,988,680		8,028,507

THE CANADIAN WHEAT BOARD—*Continued*

STATEMENT OF OPERATIONS

1987-88 POOL ACCOUNT—AMBER DURUM WHEAT
FOR THE PERIOD AUGUST 1, 1987, TO COMPLETION OF OPERATIONS ON SEPTEMBER 30, 1988
(with prior year figures for the 1986-87 Pool Account for comparison)

EXHIBIT III

	1987-88		1986-87	
	Tonnes	Amount	Tonnes	Amount
		$		$
Durum acquired				
Purchased from Producers at Board initial prices basis in store Thunder Bay or Vancouver	2,708,407	321,361,389	2,865,836	343,855,111
Net tonnes acquired from the adjustment of overages and shortages, etc., at country and terminal elevators at Board initial prices basis in store Thunder Bay or Vancouver	15,103	1,810,663	5,895	658,074
Purchased from prior year Pool Account—Durum	621,128	76,928,140	189,565	22,875,459
	3,344,638	400,100,192	3,061,296	367,388,644
Durum sold				
Completed sales to July 31 basis in store Thunder Bay, Vancouver or Churchill				
Domestic	125,607		111,960	
Export	2,548,938		1,770,302	
Weight losses in transit and in drying	2,713		2,102	
	2,677,258	399,220,730	1,884,364	277,152,352
Durum stocks—Being Durum stocks on hand at July 31 stated at the ultimate value received from the sale thereof, basis in store Thunder Bay, Vancouver or Churchill				
Completed sales for the period subsequent to July 31				
Domestic	36,432		41,559	
Export	430,690		514,245	
Sale to the subsequent Pool Account—Durum	200,258		621,128	
	667,380	119,446,586	1,176,932	153,585,284
	3,344,638	518,667,316	3,061,296	430,737,636
Surplus on Amber Durum Wheat transactions		118,567,124		63,348,992
Operating costs				
Carrying charges				
Carrying charges on Durum stored in country elevators		9,140,017		9,493,349
Storage on Durum stored in terminal elevators		2,694,180		4,496,472
		11,834,197		13,989,821
Interest and bank charges		(1,452,155)		(570,302)
Demurrage		(925,436)		839,952
Additional freight—Durum shipped from country stations to terminal position		493,233		332,687
—Freight rate changes		(116,671)		234,532
Handling and stop-off on durum warehoused at interior terminals		2,262		(145,302)
Drying charges		926		168,588
Interest and depreciation on Wheat Board hopper cars		829,173		1,104,293
Wheat Board administrative and general expenses		3,501,495		2,645,732
		14,167,024		18,600,001
Surplus on operations of the Board on the Pool Account—Durum, for the period from August 1, 1987, to September 30, 1988 (1986-87 October 31, 1987)		104,400,100		44,748,991

THE CANADIAN WHEAT BOARD—*Continued*

STATEMENT OF OPERATIONS

1987-88 POOL ACCOUNT—OATS
FOR THE PERIOD AUGUST 1, 1987, TO COMPLETION OF OPERATIONS ON SEPTEMBER 30, 1988
(with prior year figures for the 1986-87 Pool Account for comparison)

EXHIBIT IV

	1987-88		1986-87	
	Tonnes	Amount	Tonnes	Amount
		$		$
Oats acquired				
Purchased from Producers at Board initial prices basis in store Thunder Bay or Vancouver	256,132	23,100,925	254,144	18,936,141
Net tonnes acquired from the adjustment of overages and shortages, etc., at country and terminal elevators at Board initial prices basis in store Thunder Bay or Vancouver	386	33,409	397	42,958
Purchased from prior year Pool Account—Oats	70,285	8,865,289	28,990	2,199,808
	326,803	31,999,623	283,531	21,178,907
Oats sold				
Completed sales to July 31 basis in store Thunder Bay or Vancouver	251,141	30,148,393	178,261	15,007,238
Weight losses in transit and in drying	20		47	
Oats stocks—Being Oats stocks on hand at July 31 stated at the ultimate value received from the sale thereof, basis in store Thunder Bay or Vancouver				
Completed sales for period subsequent to July 31	43,067	6,209,051	34,938	3,774,908
Sale to subsequent Pool Account—Oats	32,575	5,918,150	70,285	8,865,289
	326,803	42,275,594	283,531	27,647,435
Surplus on Oats transactions		10,275,971		6,468,528
Operating costs				
Carrying charges				
Carrying charges on Oats stored in country elevators		539,261		696,193
Storage on Oats stored in terminal elevators		602,275		589,322
		1,141,536		1,285,515
Interest and bank charges		(149,220)		(59,352)
Demurrage		47,455		(6,196)
Additional freight—Oats shipped from country stations to terminal position		272,321		243,254
—Freight rate changes		(2,263)		17,779
Handling and stop-off on Oats warehoused at interior terminals		1,023		
Drying charges		4,133		12,903
Interest and depreciation on Wheat Board hopper cars		85,409		97,929
Wheat Board administrative and general expenses		331,134		234,625
		1,731,528		1,826,457
Surplus on operations of the Board on the Pool Account—Oats, for the period from August 1, 1987, to September 30, 1988 (1986-87 October 31, 1987)		8,544,443		4,642,071

THE CANADIAN WHEAT BOARD—*Continued*

THE STATEMENT OF OPERATIONS

1987-88 POOL ACCOUNT—DESIGNATED OATS
FOR THE PERIOD AUGUST 1, 1987, TO COMPLETION OF OPERATIONS ON SEPTEMBER 30, 1988
(with prior year figures for the 1986-87 Pool Account for comparison) EXHIBIT V

	1987-88		1986-87	
	Tonnes	Amount	Tonnes	Amount
		$		$
Designated Oats acquired				
Purchased from Producers at Board initial prices basis in store Thunder Bay or Vancouver	76,321	9,261,146	55,386	7,037,675
Designated Oats sold				
Completed sales to July 31 basis in store Thunder Bay or Vancouver	74,434	10,166,104	52,367	6,794,003
Designated Oats stocks—Being Designated Oats stocks on hand at July 31 stated at the ultimate value received from the sale thereof, basis in store Thunder Bay or Vancouver				
Completed sales for the period subsequent to July 31	1,887	298,140	3,019	384,915
	76,321	10,464,244	55,386	7,178,918
Surplus on Designated Oats transactions		1,203,098		141,243
Operating costs				
Interest		(86,990)		(27,400)
Interest and depreciation on Wheat Board hopper cars		25,450		21,342
Wheat Board administrative and general expenses		98,670		51,132
		37,130		45,074
Surplus on operations of the Board on the Pool Account—Designated Oats, for the period from August 1, 1987, to September 30, 1988 (1986-87 October 31, 1987)		1,165,968		96,169

THE CANADIAN WHEAT BOARD—*Continued*

STATEMENT OF OPERATIONS

1987-88 POOL ACCOUNT—BARLEY
FOR THE PERIOD AUGUST 1, 1987, TO COMPLETION OF OPERATIONS ON SEPTEMBER 30, 1988
(with prior year figures for the 1986-87 Pool Account for comparison) EXHIBIT VI

	1987-88		1986-87	
	Tonnes	Amount	Tonnes	Amount
		$		$
Barley acquired				
Purchased from Producers at Board initial prices basis in store Thunder Bay or Vancouver	2,224,961	144,395,122	5,428,259	431,547,562
Net tonnes acquired from the adjustment of overages and shortages, etc., at country and terminal elevators at Board initial prices basis in store Thunder Bay or Vancouver	34,596	2,451,270	15,532	1,230,828
Purchased from prior year Pool Account—Barley				
	2,259,557	146,846,392	5,443,791	432,778,390
Barley sold				
Completed sales to July 31 basis in store Thunder Bay, Vancouver or Churchill	2,259,223	172,410,524	4,124,421	275,473,667
Weight losses in transit and in drying	334		4,750	
Barley stocks—Being Barley stocks on hand at July 31 stated at the ultimate value received from the sale thereof, basis in store Thunder Bay, Vancouver or Churchill				
Completed sales for the period subsequent to July 31			1,314,620	88,731,182
Sales to subsequent Pool Account—Barley				
	2,259,557	172,410,524	5,443,791	364,204,849
Surplus (Deficit) on Barley transactions		25,564,132		(68,573,541)
Operating costs				
Carrying charges				
Carrying charges on Barley stored in country elevators		639,467		8,767,644
Storage on Barley stored in terminal elevators		1,279,713		1,725,059
		1,919,180		10,492,703
Interest and bank charges		(2,940,186)		3,365,236
Demurrage		2,678,089		448,507
Additional freight—Barley shipped from country stations to terminal position		864,102		986,917
—Freight rate changes		(359,295)		212,161
Handling and stop-off on Barley warehoused at interior terminals		7,554		(21,312)
Drying charges		31,258		1,383,103
Interest and depreciation on Wheat Board hopper cars		681,168		2,091,673
Wheat Board administrative and general expenses		2,876,485		5,011,355
		5,758,355		23,970,343
Surplus (Deficit) on operations of the Board on the Pool Account—Barley, for the period from August 1, 1987, to September 30, 1988 (1986-87 October 31, 1987)		19,805,777		(92,543,884)

THE CANADIAN WHEAT BOARD—*Continued*

STATEMENT OF OPERATIONS

1987-88 POOL ACCOUNT—DESIGNATED BARLEY
FOR THE PERIOD AUGUST 1, 1987, TO COMPLETION OF OPERATIONS ON SEPTEMBER 30, 1988
(with prior year figures for the 1986-87 Pool Account for comparison) EXHIBIT VII

	1987-88		1986-87	
	Tonnes	Amount	Tonnes	Amount
		$		$
Designated Barley acquired				
Purchased from Producers at Board initial prices basis in store Thunder Bay or Vancouver	1,022,885	130,135,153	1,035,883	164,254,027
Designated Barley sold				
Completed sales to July 31 basis in store Thunder Bay or Vancouver	944,925	135,179,256	876,186	125,802,562
Designated Barley stocks—Being Designated Barley stocks on hand at July 31 stated at the ultimate value received from the sale thereof, basis in store Thunder Bay or Vancouver				
Completed sales for the period subsequent to July 31	77,960	14,530,982	159,697	21,915,448
	1,022,885	149,710,238	1,035,883	147,718,010
Surplus (Deficit) on Designated Barley transactions		19,575,085		(16,536,017)
Operating costs				
Interest		(2,004,837)		(39,614)
Demurrage		(128,420)		118,395
Interest and depreciation on Wheat Board hopper cars		341,086		399,157
Wheat Board administrative and general expenses		1,322,411		956,324
		(469,760)		1,434,262
Surplus (Deficit) on operations of the Board on the Pool Account—Designated Barley, for the period from August 1, 1987, to September 30, 1988 (1986-87 October 31, 1987)		20,044,845		(17,970,279)

THE CANADIAN WHEAT BOARD—*Continued*

STATEMENT OF ADMINISTRATIVE AND GENERAL EXPENSES AND ALLOCATIONS TO OPERATIONS FOR THE YEAR ENDED JULY 31, 1988
(with prior year figures for comparison) EXHIBIT VIII

	1987-88	1986-87
	$	$
Salaries—Board members, officers and staff	15,586,850	15,091,466
Unemployment insurance, pension, group insurance, medical and other employee benefits	1,853,036	2,032,540
Manitoba Health and Education Tax	338,613	255,791
Advisory Committee—Travelling expenses and per diem allowances	103,460	176,096
Rental and lighting of offices including maintenance of The Canadian Wheat Board Building	1,472,794	1,419,340
Telephones—Exchange service and long distance calls	472,517	423,592
Telegrams, cables and telex expense	127,928	151,400
Postage	679,653	575,798
Printing, stationery and supplies	516,454	612,703
Annual report, mini report and "Grain Matters", etc	153,514	142,946
District meetings	20,064	18,429
Office expense	678,549	626,626
Travelling and transfer of staff	868,819	739,336
Travelling expenses—Inspectors	223,467	178,144
Legal fees and court costs	26,371	37,301
Audit fees	98,500	91,000
Computing equipment—Rental and sundries	3,136,099	2,628,148
Repair and upkeep of office machines and equipment	62,775	52,562
Grain market publications and services	116,863	109,226
The Canadian Wheat Board share of operating expenses of Canadian International Grains Institute	1,266,031	1,100,446
Bonds and insurance	39,175	42,712
Winnipeg Commodity Exchange dues		12,120
Depreciation on building, furniture, equipment and automobiles	372,051	334,808
	28,213,583	26,852,530

	1987-88	1986-87
	$	$
Allocations to Operations		
1. Marketing of Producers' Grain		
1987-88 Pool Account—Wheat	10,462,893	
1987-88 Pool Account—Durum	1,831,074	
1987-88 Pool Account—Oats	173,164	
1987-88 Pool Account—Designated Oats	51,598	
1987-88 Pool Account—Barley	1,504,231	
1987-88 Pool Account—Designated Barley	691,542	
1986-87 Pool Account—Wheat	8,076,984	
1986-87 Pool Account—Durum	1,247,431	
1986-87 Pool Account—Oats	110,623	
1986-87 Pool Account—Designated Oats	24,108	
1986-87 Pool Account—Barley	2,362,794	
1986-87 Pool Account—Designated Barley	450,895	
	26,987,337	25,665,175
2. Distributing Final Payments to Producers		
(a) Wheat and Durum		
1986-87 Pool Account—Wheat	90,593	
1986-87 Pool Account—Durum	74,436	
1985-86 Pool Account—Durum	15,572	
1984-85 Pool Account—Wheat	1,390	
1984-85 Pool Account—Durum	188	
1983-84 Pool Account—Wheat	1,939	
1983-84 Pool Account—Durum	268	
1982-83 Pool Account—Wheat	1,013	
1982-83 Pool Account—Durum	138	
1981-82 Pool Account—Wheat	1,202	
1981-82 Pool Account—Durum	163	
	186,902	117,311
(b) Coarse Grains		
1986-87 Pool Account—Oats	24,759	
1986-87 Pool Account—Designated Oats	2,819	
1985-86 Pool Account—Designated Oats	1,161	
1985-86 Pool Account—Designated Barley	5,627	
1984-85 Pool Account—Oats	352	
1984-85 Pool Account—Designated Oats	63	
1984-85 Pool Account—Barley	837	
1984-85 Pool Account—Designated Barley	147	
1983-84 Pool Account—Oats	498	
1983-84 Pool Account—Designated Oats	88	
1983-84 Pool Account—Barley	1,168	
1983-84 Pool Account—Designated Barley	209	
1982-83 Pool Account—Oats	255	
1982-83 Pool Account—Designated Oats	46	
1982-83 Pool Account—Designated Barley	105	
1981-82 Pool Account—Designated Oats	360	
1981-82 Pool Account—Barley	724	
1981-82 Pool Account—Designated Barley	126	
	39,344	70,044
3. Allocation authorized by Order-in-Council from Special Account—Undistributed Payment Accounts in partial payment of Administrative and General Expense incurred in respect of the Prairie Grain Advance Payments Act	1,000,000	1,000,000
	28,213,583	26,852,530

THE CANADIAN WHEAT BOARD—*Continued*

STATEMENT OF ADVANCE PAYMENTS TO PRODUCERS
UNDER THE PRAIRIE GRAIN ADVANCE PAYMENTS ACT
AS AT JULY 31, 1988

EXHIBIT IX

	Cash Advances to Producers	Advances Repaid by Producers	Balance to be Refunded by Producers
	$	$	$
1957-58 Crop Year	35,203,467	35,200,848	2,619
1958-59 Crop Year	34,369,653	34,366,768	2,885
1959-60 Crop Year	38,492,505	38,490,061	2,444
1960-61 Crop Year	63,912,550	63,905,058	7,492
1961-62 Crop Year	16,656,713	16,651,472	5,241
1962-63 Crop Year	29,251,526	29,245,974	5,552
1963-64 Crop Year	62,136,418	62,129,679	6,739
1964-65 Crop Year	32,961,844	32,955,727	6,117
1965-66 Crop Year	40,600,386	40,596,511	3,875
1966-67 Crop Year	36,668,270	36,664,915	3,355
1967-68 Crop Year	47,280,533	47,277,578	2,955
1968-69 Crop Year	151,852,319	151,771,480	80,839
1969-70 Crop Year	272,777,516	272,476,629	300,887
1970-71 Crop Year	91,105,890	91,076,244	29,646
1971-72 Crop Year	68,142,360	68,110,235	32,125
1972-73 Crop Year	20,754,104	20,743,234	10,870
1973-74 Crop Year	35,259,387	35,220,656	38,731
1974-75 Crop Year	46,635,399	46,609,707	25,692
1975-76 Crop Year	20,236,528	20,208,199	28,329
1976-77 Crop Year	130,592,220	130,478,652	113,568
1977-78 Crop Year	119,090,916	118,928,275	162,641
1978-79 Crop Year	151,316,450	151,199,105	117,345
1979-80 Crop Year	99,146,581	99,080,930	65,651
1980-81 Crop Year	61,640,150	61,598,537	41,613
1981-82 Crop Year	333,688,190	333,240,052	448,138
1982-83 Crop Year	309,022,755	308,206,500	816,255
1983-84 Crop Year	286,736,519	285,925,693	810,826
1984-85 Crop Year	201,289,320	200,353,424	935,896
1985-86 Crop Year	340,670,296	339,079,128	1,591,168
1986-87 Crop Year	642,511,850	638,921,777	3,590,073
1987-88 Crop Year	563,607,958	441,091,841	122,516,117
	4,383,610,573	4,251,804,889	

Balance to be refunded by Producers as at July 31, 1988		131,805,684
Add: bank interest to July 31, 1988 payable by the Government of Canada	158,648,093	
Less: amount paid to July 31, 1988	157,646,694	1,001,399
		132,807,083
Deduct: balance of funds received to cover advance payments in default		
Government of Canada	2,358,515	
Line Elevator Companies	95,124	
Interest received on default payments	13,688,237	16,141,876
Owing to the Canadian Wheat Board as at July 31, 1988		116,665,207

THE CANADIAN WHEAT BOARD—*Continued*

STATEMENT OF SPECIAL ACCOUNT TRANSACTIONS
FOR THE YEAR ENDED JULY 31, 1988

EXHIBIT X

	$	$
Balance of Special Account as at July 31, 1987		7,125,079
Transfer to Special Account authorized by Order-in-Council P.C. 1988-1486 from the following:		
1980 Wheat Payment Account	944,630	
1980 Durum Payment Account	39,779	
1980 Oats Payment Account	(13,461)	
1980 Barley Payment Account	462,910	
1980 Designated Barley Payment Account	184,602	
1980 Barley Adjustment Payment Account	121	1,618,581
		8,743,660

Expenditures

Authorized by Order-in-Council N°.	Description of Purpose	Unexpended as at July 31, 1987	Authorized Crop Year 1987-88	Unexpended as at July 31, 1988	Expended Crop Year 1987-88	
		$	$	$	$	
P.C.1988-1017	Market Development	191,263	250,000			
P.C.1988-1487			300,000	191,083	550,180	
P.C.1988-1488	Scholarship and Assistantship Program	37,330	267,670	41,735	263,265	
P.C.1988-263	General Promotion and Overseas Advertising	455,787	250,000	2	705,785	
P.C.1987-2591	Forks National Historic Park		50,000	50,000		
P.C.1987-1122	Canadian International Grains Institute—Capital Expenditures	123,984		86,591	37,393	
P.C.1986-1058	Prairie Grain Advance Payment Act—Administration	1,000,000			1,000,000	
P.C.1984-2690	Customer Mission Program	223,759		24,804	198,955	
P.C.1983-2003	Joint Policy Coordinating Committee of Canada United States Wheat Producers	88,133		88,133		
		2,120,256	1,117,670	482,348		2,755,578
						5,988,082

Less: payments to producers against old payment accounts	1,559
Balance of Special Account as at July 31, 1988	5,986,523

As at July 31, 1988, there were unexpended authorizations totalling $482,348 leaving an unexpended balance of $5,504,175 in the Account.

THE CANADIAN WHEAT BOARD—*Continued*

FINANCIAL RESULTS AND NOTES TO FINANCIAL STATEMENTS

The Financial Statements of the Canadian Wheat Board including notes thereto for the crop year under review are presented in this section of the report. These statements consist of the Balance Sheet (Exhibit I), which sets forth the financial position of the Board as at July 31, 1988, together with other statements (Exhibits II to X) showing the results of Board operations for the year.

The practice of the Board is to include in its accounts at July 31, the final operating results of pool accounts when marketing operations have been completed before the issuance of the annual report. Operations on the 1987—88 Pool Accounts for wheat, amber durum wheat, oats, designated oats, barley and designated barley were completed on September 30, 1988. Details of the final operating results of these pool accounts with commentary thereon are presented in this section of the report.

Although the basic measurement for grain has been the "tonne" since February 1, 1978, for your information a tonne equals 36.74371 bushels of wheat, 64.84183 bushels of oats or 45.92963 bushels of barley.

Pool account—Wheat

Initial payments

At the beginning of the crop year the Board was authorized to purchase wheat from producers at a fixed initial price of $110.00 per tonne for No. 1 Canada Western Red Spring. Effective April 18, 1988, the initial price for No. 1 Canada Western Red Spring was increased to $120.00 per tonne.

Supplies of wheat

Supplies of wheat in the 1987-88 Pool were 16,103,701 tonnes, comprised of 15,476,040 tonnes delivered by producers, 63,218 tonnes acquired from other than producers and 564,443 tonnes purchased from the previous pool.

Grade pattern

Deliveries of grain to the 1987-88 Pool Account were of significantly better quality compared with receipts in the previous pool. Deliveries of Nos. 1 and 2 Canada Western Red Spring totalled 11.594 million tonnes or 74.92 per cent of total receipts, while No. 3 Canada Western Red Spring receipts of 3.163 million tonnes amounted to 20.44 per cent of total receipts. Deliveries of utility grades including Canada Western Feed amounted to .720 million tonnes or 4.64 per cent of total producer deliveries. Approximately .82 per cent of producer deliveries graded tough while .02 per cent graded damp compared to 6.03 per cent grading tough and .24 per cent grading damp in the previous year.

Final statement of operations and surplus for distribution to producers—Wheat—Table A

Marketing operations on the Pool Account for wheat resulted in an operating surplus of $244,988,680. After allowing for the cost of issuing the final payment and adding estimated interest earnings subsequent to September 30, 1988, the net surplus for distribution to producers amounted to $251,666,759. This amount represents an average of $16.262 on producer deliveries of 15,476,040 tonnes. Table B shows the total price realized by producers for No. 1 CW Red Spring at $134.019 compared to $130.00 for the previous pool.

STATEMENT OF OPERATIONS AND SURPLUS FOR DISTRIBUTION TO PRODUCERS ON THE 1987-88 POOL ACCOUNT—WHEAT FOR THE PERIOD AUGUST 1, 1987 TO SEPTEMBER 30, 1988
(with prior year figures for the 1986-87 Pool Account for comparison)

TABLE A

	1987-88 Pool Account		1986-87 Pool Account	
	Amount	Rate per tonne	Amount	Rate per tonne
Receipts from producers	15,476,040 tonnes		18,555,981 tonne	
	$	$	$	$
Sales value	2,059,496,820	133.076	2,257,843,835	121.677
Initial payments to producers	1,744,509,029	112.723	2,150,584,269	115.897
Gross surplus	314,987,791	20.353	107,259,566	5.780
Deduct Operating Costs				
Carrying charges				
Country elevators	37,105,198	2.398	49,772,667	2.682
Terminal storage	16,037,805	1.036	16,582,309	0.894
Total Carrying Charges	53,143,003	3.434	66,354,976	3.576
Bank interest and net interest on other Board accounts	(17,785,610)	(1.149)	(6,375,164)	(0.344)
Demurrage	(265,409)	(0.017)	1,770,643	0.095
Additional freight—To terminals	10,542,410	0.681	8,749,488	0.472
—Freight rate change	(1,513,861)	(0.098)	825,363	0.045
Handling and stop-off	1,080,148	0.070	(99,389)	(0.005)
Drying	52,664	0.003	3,724,128	0.201
Interest and depreciation on Wheat Board hopper cars	4,737,960	0.306	7,150,182	0.385
Wheat Board administrative expenses	20,007,806	1.293	17,130,832	0.923
Total Operating Costs	69,999,111	4.523	99,231,059	5.348
Surplus on Operations	244,988,680	15.830	8,028,507	0.432
Add: interest earned after September 30 (1986-87 October 31)	6,814,351	0.440	132,913	0.007
Deduct: cost of issuing final payment	136,272	0.008	42,447	0.002
Surplus for Distribution to Producers	251,666,759	16.262	8,118,973	0.437

THE CANADIAN WHEAT BOARD—*Continued*

FINANCIAL RESULTS AND NOTES TO FINANCIAL STATEMENTS—*Continued*

PAYMENTS RECEIVED BY PRODUCERS FOR PRINCIPAL GRADES OF WHEAT
BASIS IN STORE THUNDER BAY OR VANCOUVER

TABLE B

Grade	Initial payments	Final payments	Total
	(dollars per tonne)		
Red Spring Wheat Grades			
No. 1 Canada Western Red Spring	120.00	14.019	134.019
No. 1 Canada Western Red Spring 13.5	122.21	19.596	141.806
No. 2 Canada Western Red Spring	114.21	13.661	127.871
No. 2 Canada Western Red Spring 13.5	115.21	18.809	134.019
No. 3 Canada Western Red Spring	100.21	15.571	115.781
No. 1 Canada Western Utility	99.21	25.661	124.871
No. 2 Canada Western Utility	87.21	18.661	105.871
No. 1 Canada Prairie Spring	90.21	25.571	115.781
No. 2 Canada Prairie Spring	86.21	27.571	113.781
Canada Western Feed	80.00	13.731	93.731
Red Winter Wheat Grades			
No. 1 Canada Western Red Winter	99.21	16.571	115.781
No. 2 Canada Western Red Winter	97.21	16.571	113.781
Soft White Spring Wheat Grades			
No. 1 Canada Western Soft White Spring	100.00	16.781	116.781
No. 2 Canada Western Soft White Spring	97.00	18.781	115.781

Operating costs

Operating costs incurred applicable to the pool were $69,999,111 or $4.523 per tonne. Details of the principal costs and comment thereon follows:

Carrying charges—$53,143,003

Total carrying charges incurred by the Board, including storage and interest charges on wheat in country elevators and storage on wheat in terminal elevators, amounted to $53,143,003 or $3.434 per tonne.

Bank interest and net interest on other Board accounts— ($17,785,610)

This amount consists mainly of bank interest and interest paid to, or received from, other Board accounts. Interest earned exceeded interest paid by $17,785,610 or $1.149 per tonne.

Additional freight—To Terminals—$10,542,410—Freight rate change ($1,513,861)

During the crop year the Board paid $10,542,410 of additional freight arising out of the movement of grain in adverse direction.

With the abolition of the Crows Nest Pass freight rate on December 31, 1983, freight rates are reviewed annually under the Western Grain Transportation Act. On August 1, 1988, freight rates increased by a net amount of approximately $.75 per tonne. Normally this increase in rates would result in the Board paying additional freight on its country stocks. However, since the Board's country stocks were over-delivered as at July 31, 1988, the increase in rates resulted in the Board collecting the additional freight on its over-delivered position.

Drying charges—$52,664

Drying charges for 1987—88 totalled $52,664, a very significant decrease from the previous year, reflecting the substantially lower quantities of tough and damp grain delivered to the pool under review.

Interest and depreciation on Wheat Board hopper cars—$4,737,960

Costs for the use of the Board's 2,000 hopper cars include depreciation and interest. Hopper car expenses attributable to the 1987—88 Wheat Account totalled $4,737,960 compared to $7,150,182 for the previous pool.

Pool account—Amber Durum Wheat

Initial payments

At the beginning of the crop year the Board was authorized to purchase Amber Durum Wheat from producers at a fixed initial price of $110.00 per tonne for No. 1 Canada Western Amber Durum Wheat. Effective April 18, 1988, the initial price for No. 1 Canada Western Amber Durum was increased to $125.00 per tonne.

Supplies of Amber Durum Wheat

Supplies of amber durum wheat in the 1987-88 Pool were 3,344,639 tonnes, comprised of 2,708,407 tonnes delivered by producers, 15,104 tonnes acquired from other than producers and 621,128 tonnes purchased from the previous pool.

Grade pattern

Receipts of Nos. 1, 2 and 3 Canada Western Amber Durum totalled 2.458 million tonnes or 90.74 per cent of total producer deliveries. Approximately 1.46 per cent of producer deliveries graded tough while .10 per cent graded damp.

Final statement of operations and surplus for distribution to producers—Amber Durum Wheat—Table C

Table C shows the operating results of the Pool Account for the crop year. Marketing operations resulted in a surplus of $104,400,100. Operating expenses totalled $14,167,024 for the year or $5.231 per tonne. The principal cost was carrying charges amounting to $11,834,197 or $4.370 per tonne. After allowing for the cost of issuing the final payment and estimated interest earnings subsequent to September 30, 1988, the net surplus for distribution to producers was $107,271,961. This amount represents an overall average of $39.607 per tonne on producer deliveries of 2,708,407 tonnes. Table D shows the total payment received by producers for the principal grades of Amber Durum Wheat delivered during the crop year. This table shows the total price realized by producers for No. 1 Canada Western Amber Durum Wheat of $169.359 per tonne, compared to $150.204 per tonne for the previous pool.

THE CANADIAN WHEAT BOARD—*Continued*

FINANCIAL RESULTS AND NOTES TO FINANCIAL STATEMENTS—*Continued*

STATEMENT OF OPERATIONS AND SURPLUS FOR DISTRIBUTION TO PRODUCERS
ON THE 1987-88 POOL ACCOUNT—AMBER DURUM WHEAT
FOR THE PERIOD AUGUST 1, 1987 TO SEPTEMBER 30, 1988
(with prior year figures for the 1986-87 Pool Account for comparison)

TABLE C

	1987-88 Pool Account		1986-87 Pool Account	
	Amount	Rate per tonne	Amount	Rate per tonne
Receipts from producers	2,708,407 tonnes		2,865,836 tonnes	
	$	$	$	$
Sales value	439,928,513	162.431	407,204,103	142.089
Initial payment to producers	321,361,389	118.653	343,855,111	119.984
Gross Surplus	118,567,124	43.778	63,348,992	22.105
Deduct Operating Costs				
Carrying charges				
Country elevators	9,140,017	3.375	9,493,349	3.313
Terminal storage	2,694,180	0.995	4,496,472	1.569
Total Carrying Charges	11,834,197	4.370	13,989,821	4.882
Interest	(1,452,155)	(0.536)	(570,302)	(0.199)
Demurrage	(925,436)	(0.342)	839,952	0.293
Additional freight—To terminals	493,233	0.182	332,687	0.116
—Freight rate changes	(116,671)	(0.043)	234,532	0.082
Handling and stop-off	2,262	0.001	(145,302)	(0.051)
Drying	926		168,588	0.059
Interest and depreciation on Wheat Board hopper cars	829,173	0.306	1,104,293	0.385
Wheat Board administrative expenses	3,501,495	1.293	2,645,732	0.923
Total Operating Costs	14,167,024	5.231	18,600,001	6.490
Surplus on Operations	104,400,100	38.547	44,748,991	15.615
Add: interest earned after September 30 (1986-87 October 31)	2,903,885	1.072	740,827	0.258
Deduct: cost of issuing final payment	32,024	0.012	40,836	0.014
Surplus of Distribution to Producers	107,271,961	39.607	45,448,982	15.859

PAYMENTS RECEIVED BY PRODUCERS FOR
PRINCIPAL GRADES OF AMBER DURUM WHEAT
BASIS IN STORE THUNDER BAY OR
VANCOUVER

TABLE D

Grade	Initial payments	Final payments	Total
	(dollars per tonne)		
Amber Durum Wheat Grades			
No. 1 Canada Western Amber Durum	125.00	44.359	169.359
No. 2 Canada Western Amber Durum	122.00	42.210	164.210
No. 3 Canada Western Amber Durum	120.00	39.068	159.068
No. 4 Canada Western Amber Durum	95.00	32.472	127.472
No. 5 Canada Western Amber Durum	85.00	8.732	93.732

Pool account—Oats

Commencing August 1, 1981, as authorized by Order-in-Council, oats selected and accepted from producers for use in processing and milling for human consumption, has been set up in a separate pool under the caption "Designated Oats". As a result, the transactions described here consist mainly of marketing results related to feeding grades of oats.

Initial payments

At the beginning of the crop year the Board was authorized to purchase oats from producers at a fixed initial price of $55.00 per tonne for No. 1 Feed Oats. The initial price was increased to $80.00 per tonne on October 23, 1987, and once again on April 18, 1988, to $90.00 per tonne.

Supplies and Grade pattern

Supplies in the regular Feed Oats Pool were 326,803 tonnes, comprised of 256,132 tonnes delivered by producers, 386 tonnes acquired from other than producers and 70,285 tonnes purchased from the previous pool. Deliveries of Nos. 1 and 2 Canada Western Oats comprised 1.18 per cent of producer deliveries with feeding grades constituting the remaining 98.82 per cent of total receipts. Board receipts of tough and damp oats made up .39 per cent of deliveries.

Final statement of operations and surplus for distribution to producers—Oats—Table E

Table E shows the operating results of the Pool Account for the 1987-88 crop year. Marketing operations resulted in a surplus of $8,544,443. Operating expenses totalled $1,731,528 or $6.760 per tonne. The principal cost was carrying charges amounting to $1,141,536 or $4.457 per tonne. After allowing for the cost of issuing the final payment and estimated interest earnings subsequent to September 30, 1988, the net surplus for distribution to producers was $8,773,703 which represents an overall average of $34.255 per tonne on producer deliveries of 256,132 tonnes. Table F shows the total payment received by producers for the principal grades of oats delivered during the crop year.

THE CANADIAN WHEAT BOARD—*Continued*

FINANCIAL RESULTS AND NOTES TO FINANCIAL STATEMENTS—*Continued*

STATEMENT OF OPERATIONS AND SURPLUS FOR DISTRIBUTION TO PRODUCERS
ON THE 1987-88 POOL ACCOUNT—OATS
FOR THE PERIOD AUGUST 1, 1987 TO SEPTEMBER 30, 1988
(with prior year figures for the 1986-87 Pool Account for comparison) TABLE E

	1987-88 Pool Account		1986-87 Pool Account	
	Amount	Rate per tonne	Amount	Rate per tonne
Receipts from producers	256,132 tonnes		254,144 tonnes	
	$	$	$	$
Sales value	33,376,896	130.311	25,404,669	99.962
Initial payment to producers	23,100,925	90.191	18,936,141	74.510
Gross Surplus	10,275,971	40.120	6,468,528	25.452
Deduct Operating Costs				
Carrying charges				
Country elevators	539,261	2.105	696,193	2.739
Terminal storage	602,275	2.352	589,322	2.319
Total Carrying Charges	1,141,536	4.457	1,285,515	5.058
Interest	(149,220)	(0.583)	(59,352)	(0.233)
Demurrage	47,455	0.185	(6,196)	(0.024)
Additional freight—To terminals	272,321	1.063	243,254	0.957
—Freight rate changes	(2,263)	(0.009)	17,779	0.070
Handling and stop-off	1,023	0.004		
Drying charges	4,133	0.016	12,903	0.051
Interest and depreciation on Wheat Board hopper cars	85,409	0.334	97,929	0.385
Wheat Board administrative expenses	331,134	1.293	234,625	0.923
Total Operating Costs	1,731,528	6.760	1,826,457	7.187
Surplus on Operations	8,544,443	33.360	4,642,071	18.265
Add: interest earned after September 30 (1986-87 October 31)	237,663	0.928	76,850	0.302
Deduct: cost of issuing final payment	8,403	0.033	12,404	0.048
Surplus for Distribution to Producers	8,773,703	34.255	4,706,517	18.519

PAYMENT RECEIVED BY PRODUCERS FOR PRINCIPAL GRADES OF OATS
BASIS IN STORE THUNDER BAY OR VANCOUVER TABLE F

Grade	Initial payments	Final payments	Total
		(dollars per tonne)	
Oats Grades			
No. 1 Canada Western	96.00	40.538	136.538
No. 2 Canada Western	94.00	40.538	134.538
Extra No. 1 Feed	92.00	36.038	128.038
No. 1 Feed	90.00	34.038	124.038
No. 2 Feed	85.90	25.638	111.538

Pool account—Designated Oats

Commencing on August 1, 1981, as authorized by Order-in-Council, oats selected and accepted from producers for use in processing and milling for human consumption, has been set up in a separate account. This account has been labeled "Designated Oats" and the results of operations on this account with comment thereon are contained in this section of the report.

Initial payments

At the beginning of the crop year the Board was authorized to purchase designated oats from producers at fixed initial prices of $100.00 and $98.00 per tonne for Nos. 1 and 2 Canada Western Oats respectively and $94.00 per tonne for No. 1 Feed Oats. Initial prices were increased on October 26, 1987, to $125.00 and $123.00 per tonne for Nos. 1 and 2 Canada Western Oats respectively and $119.00 per tonne for No. 1 Feed Oats.

Supplies and grade pattern

Supplies of oats in the Designated Pool were 76,321 tonnes representing deliveries to the Board by producers during the crop year of oats which were selected and accepted by purchasers for use in processing and milling for human consumption. Receipts of Nos. 1 and 2 Canada Western Oats totalled 39,334 tonnes or 51.54 per cent of total deliveries. Feeding grades totalled 36,987 tonnes or 48.46 per cent of total receipts.

THE CANADIAN WHEAT BOARD—*Continued*

FINANCIAL RESULTS AND NOTES TO FINANCIAL STATEMENTS—*Continued*

Final statement of operations and surplus for distribution to producers—Designated Oats—Table G

Table G shows the operating results of this Pool Account for the crop year. Marketing operations resulted in a surplus of $1,165,968. As to operating costs, it should be noted that the Designated Oats Pool, by its very nature does not incur the handling expenses normally related to feeding grades of oats. It is not stored by the Board, being selected by the purchaser and shipped at his request from farm to processing plant via the country elevator. As a result, the only expenses attributable to such oats were costs related to hopper cars owned by the Wheat Board and administrative charges totalling $124,120 or $1.627 per tonne. These expenses were reduced by interest earnings of $86,990 or $1.140 per tonne on the accumulating surplus in the pool. After providing for the cost of issuing the final payment and adding estimated interest earnings subsequent to September 30, 1988, the net surplus for distribution to producers was $1,197,264 or $15.687 per tonne on producer deliveries of 76,321 tonnes. Table H shows the total payments received by producers for the principal grades of designated oats delivered during the crop year.

STATEMENT OF OPERATIONS AND SURPLUS FOR DISTRIBUTION TO PRODUCERS
ON THE 1987-88 POOL ACCOUNT—DESIGNATED OATS
FOR THE PERIOD AUGUST 1, 1987 TO SEPTEMBER 30, 1988
(with prior year figures for the 1986-87 Pool Account for comparison)

TABLE G

	1987-88 Pool Account		1986-87 Pool Account	
	Amount	Rate per tonne	Amount	Rate per tonne
Receipts from producers	76,321 tonnes		55,386 tonnes	
	$	$	$	$
Sales value	10,464,244	137.108	7,178,918	129.617
Initial payments to producers	9,261,146	121.344	7,037,675	127.067
Gross Surplus	1,203,098	15.764	141,243	2.550
Deduct Operating Costs				
Interest and bank charges	(86,990)	(1.140)	(27,400)	(0.494)
Interest and depreciation on Wheat Board hopper cars	25,450	0.334	21,342	0.385
Wheat Board administrative expenses	98,670	1.293	51,132	0.923
Total Operating Costs	37,130	0.487	45,074	0.814
Surplus on Operations	1,165,968	15.277	96,169	1.736
Add: interest earned after September 30 (1986-87 October 31)	32,431	0.425	1,592	0.029
Deduct: cost of issuing final payment	1,135	0.015	1,309	0.023
Surplus for Distribution to Producers	1,197,264	15.687	96,452	1.742

PAYMENTS RECEIVED BY PRODUCERS FOR PRINCIPAL GRADES OF DESIGNATED OATS BASIS IN STORE THUNDER BAY OR VANCOUVER

TABLE H

Grade	Initial payments	Final payments	Total
	(dollars per tonne)		
Oats Grades			
No. 1 Canada Western	125.00	18.593	143.593
No. 2 Canada Western	123.00	18.593	141.593
Extra No. 1 Feed	121.00	15.707	136.707
No. 1 Feed	119.00	12.093	131.093

Pool account—Barley

Since August 1, 1975, as authorized by Order-in-Council, barley selected and accepted from producers for use in malting, pot or pearling, has been set up in a separate pool under the caption "Designated Barley". As a result, the transactions remaining in the Barley Pool Account described here consist mainly of marketing results related to feeding grades of barley.

Initial payments

At the beginning of the crop year the Board was authorized to purchase barley from producers at fixed initial prices of $60.00 and $57.00 per tonne for Nos. 1 and 2 Canada Western Barley respectively. Effective April 18, 1988, the initial prices for Nos. 1 and 2 Canada Western Barley were increased to $65.00 and $62.00 respectively.

Supplies and grade pattern

Supplies in the regular Feed Barley pool were 2,259,557 tonnes comprised of 2,224,961 tonnes delivered by producers and 34,596 tonnes acquired from other than producers. Deliveries of Nos. 1 and 2 Canada Western Barley comprised 99.95 per cent of the producer deliveries in the pool. Board receipts of tough and damp barley made up .77 per cent of deliveries.

Final statement of operations and surplus for distribution to producers—Barley—Table I

Table I shows the operating results of the Pool Account for the crop year. Marketing operations resulted in a surplus of $19,805,777. Operating expenses totalled $5,758,355 for the year or $2.588 per tonne. The principal cost was carrying charges amounting to $1,919,180 or $.863 per tonne. After allowing for the cost of issuing the final payment and estimated interest earnings subsequent to September 30, 1988, the net surplus for distribution to producers was $20,317,836. This amount represents an overall average of $9.132 per tonne on producer deliveries of 2,224,961 tonnes. Table J shows the total payment received by producers for the principal grades of Barley delivered during the crop year.

THE CANADIAN WHEAT BOARD—*Continued*

FINANCIAL RESULTS AND NOTES TO FINANCIAL STATEMENTS—*Continued*

STATEMENT OF OPERATIONS AND SURPLUS FOR DISTRIBUTION TO PRODUCERS
ON THE 1987-88 POOL ACCOUNT—BARLEY
FOR THE PERIOD AUGUST 1, 1987 TO SEPTEMBER 30, 1988
(with prior year figures for the 1986-87 Pool Account for comparison) TABLE I

	1987-88 Pool Account		1986-87 Pool Account	
	Amount	Rate per tonne	Amount	Rate per tonne
Receipts from producers	2,224,961 tonnes		5,428,259 tonnes	
	$	$	$	$
Sales value	169,959,254	76.388	362,974,021	66.867
Initial payments to producers	144,395,122	64.898	431,547,562	79.500
Gross surplus (Deficit)	25,564,132	11.490	(68,573,541)	(12.633)
Deduct Operating Costs				
Carrying charges				
Country elevators	639,467	0.288	8,767,644	1.615
Terminal storage	1,279,713	0.575	1,725,059	0.318
Total Carrying Charges	1,919,180	0.863	10,492,703	1.933
Interest	(2,940,186)	(1.322)	3,365,236	0.620
Demurrage	2,678,089	1.204	448,507	0.083
Additional freight—To terminals	864,102	0.388	986,917	0.182
—Freight rate changes	(359,295)	(0.161)	212,161	0.039
Handling and stop-off	7,554	0.003	(21,312)	(0.004)
Drying	31,258	0.014	1,383,103	0.255
Interest and depreciation on Wheat Board hopper cars	681,168	0.306	2,091,673	0.385
Wheat Board administrative expenses	2,876,485	1.293	5,011,355	0.923
Total Operating Costs	5,758,355	2.588	23,970,343	4.416
Surplus (Deficit) on Operations	19,805,777	8.902	(92,543,884)	(17.049)
Add: interest earned after September 30	550,897	0.248		
Deduct: cost of issuing final payment	38,838	0.018		
Surplus for Distribution to Producers	20,317,836	9.132		

PAYMENT RECEIVED BY PRODUCERS FOR PRINCIPAL GRADES OF BARLEY
BASIS IN STORE THUNDER BAY OR VANCOUVER TABLE J

Grade	Initial payments	Final payments	Total
		(dollars per tonne)	
Barley Grades			
No. 1 Canada Western	65.00	9.082	74.082
No. 2 Canada Western	62.00	11.082	73.082
Mixed Grain Canada Western Barley	52.45	9.082	61.532

Pool account—Designated Barley

As stated previously, since August 1, 1975, as authorized by Order-in-Council, barley selected and accepted from producers for use in malting, pot or pearling, has been set up in a separate pool account. This account has been labeled "Designated Barley" and the results of operations on this account with comment thereon are contained in this section of the report.

Initial payments

At the beginning of the crop year the Board was authorized to purchase Designated Barley from producers at a fixed initial price of $105.00 per tonne for Special Select Canada Western Six-Row and $115.00 per tonne for Special Select Canada Western Two-Row. Effective April 18, 1988, the initial prices for Special Select Canada Western Six-Row and Special Select Canada Western Two-Row were increased to $125.00 and $135.00 per tonne respectively.

Supplies and grade pattern

Supplies of barley in the designated pool were 1,022,885 tonnes representing deliveries to the Board by producers during the crop year of barley which has been selected and accepted by purchasers for the use in malting, pot or pearling. Of these receipts 107,865 tonnes or 10.53 per cent were Special Select grades and 794,429 tonnes or 77.67 per cent were Select grades. Receipts of tough and damp grades totalled 12,877 tonnes or 1.26 per cent of total.

Final statement of operations and surplus for distribution to producers—Designated Barley—Table K

Table K shows the operating results of this Pool Account for the crop year. Marketing operations resulted in a surplus of $20,044,845. As to operating costs, it should be noted that the Designated Barley Pool by its very nature does not incur the handling expenses normally related to feeding grades of barley or other grains. It is not stored by the Board, being selected by the processor (buyer) from a producer's sample and is shipped on buyer's call directly from farm to processing plant via the country elevator. As a result the only expenses attributable to such barley were costs related to hopper cars owned by the Wheat Board, and administrative charges totalling $1,663,497 or $1.627 per tonne. These expenses were reduced by interest earnings and demurrage adjustments of $2,133,257 or $2.086 per tonne. After providing for the cost of issuing the final payment and adding estimated interest earnings subsequent to September 30, 1988, the net surplus for distribution to producers was $20,591,944 or $20.131 per tonne on producer deliveries of 1,022,885 tonnes. Table L shows the total payment received by producers for the principal grades of Designated Barley delivered during the crop year.

THE CANADIAN WHEAT BOARD—*Continued*

FINANCIAL RESULTS AND NOTES TO FINANCIAL STATEMENTS—*Continued*

STATEMENT OF OPERATIONS AND SURPLUS FOR DISTRIBUTION TO PRODUCERS ON THE 1987-88 POOL ACCOUNT—DESIGNATED BARLEY FOR THE PERIOD AUGUST 1, 1987 TO SEPTEMBER 30, 1988
(with prior year figures for the 1986-87 Pool Account for comparison)

TABLE K

	1987-88 Pool Account		1986-87 Pool Account	
	Amount	Rate per tonne	Amount	Rate per tonne
Receipts from producers	1,022,885 tonnes		1,035,883 tonnes	
	$	$	$	$
Sales value	149,710,238	146.361	147,718,010	142.601
Initial payments to producers	130,135,153	127.224	164,254,027	158.564
Gross Surplus (Deficit)	19,575,085	19.137	(16,536,017)	(15.963)
Deduct Operating Costs				
Interest	(2,004,837)	(1.960)	(39,614)	(0.037)
Demurrage	(128,420)	(0.126)	118,395	0.114
Interest and depreciation on Wheat Board hopper cars	341,086	0.334	399,157	0.385
Wheat Board administrative expenses	1,322,411	1.293	956,324	0.923
Total Operating Costs	(469,760)	(0.459)	1,434,262	1.385
Surplus (Deficit) on Operations	20,044,845	19.596	(17,970,279)	(17.348)
Add: interest earned after September 30	557,547	0.545		
Deduct: cost of issuing final payment	10,448	0.010		
Surplus for Distribution to Producers	20,591,944	20.131		

PAYMENTS RECEIVED BY PRODUCERS FOR PRINCIPAL GRADES OF DESIGNATED BARLEY BASIS IN STORE THUNDER BAY OR VANCOUVER

TABLE L

Grade	Initial payments	Final payments	Total
		(dollars per tonne)	
Designated Barley Grades			
Special Select Canada Western Two-Row	135.00	16.668	151.668
Special Select Canada Western Six-Row	125.00	20.668	145.668
Special Canada Western Two-Row	130.00	19.168	149.168
Special Canada Western Six-Row	120.00	23.168	143.168

NOTES TO FINANCIAL STATEMENTS

The following are an integral part of the financial statements.

1. Accounting policies

(a) Operating results and valuation of stocks of grain

The annual accounts at July 31 include the final operating results of all pool accounts for the crop year ended July 31, when marketing operations have been completed before the issuance of the annual report for that year. In determining the financial results for such pools the accounts of the Board at July 31 include:

(i) the stocks of such grains on hand at that date at the values which were ultimately received from the sale thereof basis in store Thunder Bay, Vancouver or Churchill; and

(ii) provision for all expenses incurred or to be incurred before the sales proceeds are realized in cash or in bills of exchange, including a charge for the portion of administrative and general expenses to be incurred subsequent to July 31 but relating to the marketing and accounting for the grains in the various pools before they are closed.

For pool accounts for which marketing operations have not been completed before the issuance of the annual report, the unsold stocks at July 31 are valued at cost, which is the initial price paid to producers, and no provision is made for carrying costs, interest, and administrative expenses beyond that date. Any debit or credit balance in these accounts is carried on the balance sheet.

(b) Foreign currency translations

Bills of exchange receivable in United States funds which are covered by forward exchange contracts are translated at the contract rates. In all other cases, bills of exchange receivable and bank loans payable in United States funds are translated at the rate of exchange in effect as at the balance sheet date, as is also the liability for debentures repayable in United States funds.

Foreign exchange adjustments arising from conversion of bills of exchange and bank loans are included in operating results.

THE CANADIAN WHEAT BOARD—*Continued*

FINANCIAL RESULTS AND NOTES TO FINANCIAL STATEMENTS—*Continued*

NOTES TO FINANCIAL STATEMENTS—*Continued*

(c) Depreciation

The rates of depreciation being applied are intended to fully depreciate assets over their expected lives and are as follows:

Hopper cars	30 years
Office building	40 years
Office furniture and equipment	10 years
Automotive equipment	2 years (to 1/3 residual value)

(d) Administration and general expenses

Administration and general expenses, except for that portion of such expenses attributable to distributing final payments to producers, are allocated to the various pool account operations to which the services relate on the basis of the relative tonnage. Expenses attributable to final payments are allocated on the basis of the number of producers receiving payments from the various pool accounts.

2. Bills of exchange plus accrued interest

Of the total bills of exchange receivable, $1,477,962,712 (1987—$1,327,184,835) represents the Canadian equivalent of $1,220,246,624(1987—$1,000,139,288) repayable in United States funds.

The balances receivable arise from sales of grain to Algeria, Brazil, Bangladesh, Egypt, Ethiopia, Haiti, Iraq, Israel, Jamaica, Mexico, Peru, Poland and Zambia. The terms call for payment in full within 36 months or less from time of shipment, except for Brazil, Egypt, Haiti, Jamaica, Mexico, Peru, Poland and Zambia where the Board, together with the Canadian Government, have agreed to reschedule certain receivables beyond their original maturity dates. Terms of such reschedulings call for payment of interest and the rescheduled debt within ten years. As at July 31, 1988, total reschedulings amounted to $2,899,020,752 including $1,098,395,020 which is the Canadian equivalent of $906,865,109 receivable in United States funds.

As at July 31, 1988, amounts due and not paid from Poland total $605,228,340 which includes the Canadian equivalent of $262,780,413 receivable in United States funds. In accordance with a multilateral arrangement reached between Poland and official creditors Poland is currently in the process of negotiating a further rescheduling of amounts due and not paid to December 31, 1987, and post maturity interest due and not paid thereon, on all prior rescheduling agreements. Under this arrangement the amounts due to mature in the year ending December 31, 1988, are also to be rescheduled. At year end the amounts which will be subject to this rescheduling total $601,323,503 which includes the Canadian equivalent of $259,716,132 receivable in United States funds.

During the crop year, ending July 31, 1986, the Government of Canada and other creditor nations agreed to a further deferral of certain Zambian obligations that had earlier been rescheduled. The bilateral agreement to reschedule payments due and not paid as at December 31, 1985, and due and not paid for the period January 1, 1986, to December 31, 1986, has yet to be negotiated. The accounts of the Board at July 31, 1988, include $15,058,519 which may be subject to this rescheduling.

During the crop year the Board together with the Government of Canada concluded a bilateral rescheduling agreement with Egypt, rescheduling over a ten-year period certain obligations due and not paid as at December 31, 1986, and due and not paid for the period January 1, 1987, to June 30, 1988. The accounts of the Board at July 31, 1988, include $146,585,214 which was subject to this rescheduling agreement.

During the crop year the Board together with the Government of Canada concluded a bilateral rescheduling agreement with Mexico rescheduling over a nine-year period certain obligations due and not paid during the period September 22, 1986, to December 31, 1987. The accounts of the Board at July 31, 1988, include $5,982,629 which is the Canadian equivalent of $4,939,423 receivable in United States funds which was subject to this rescheduling agreement.

Credit sales are made within limits established by the Government of Canada which guarantees the Board's borrowings incurred to finance such sales, both as to principal and interest. Because of these Guarantees the Board does not consider itself to be at risk should any of the unpaid amounts prove to be uncollectable; therefore, no provision is made in its accounts with respect to the possibility of debtors defaulting on their obligations.

3. Accounts receivable

Settlement on amounts due on completed sales as at July 31 were received shortly after that date. Sundry accounts receivable consists mainly of freight costs which are recovered on completed sales.

4. Covered hopper cars

The Board purchased 2,000 covered hopper cars in 1979-80 having an original cost of $90,555,623. Of these 2,000 cars, 41 cars have been wrecked and dismantled leaving 1,959 still in the fleet having an original cost of $88,699,232 with accumulated depreciation of $25,133,846 to July 31, 1988. The Board is reimbursed for destroyed cars under an operating agreement with the Canadian National Railway.

5. Deferred charges—Trade

During the latter part of the crop year, because the initial prices in the crop year beginning August 1st were to be substantially higher, producers delivered significant quantities of grain to elevator companies which are Board agents and placed it on storage, to be sold to the agents after the beginning of the new crop year. The Board, in order to meet its sales commitments in the current crop year, purchased wheat, durum and barley which had been placed on storage, from some of its agents. In those instances, where some of the agents had delivered grain to the Board in excess of their purchases from producers during the current crop year, the agents had over-delivered their country liability to the Board. In the case of barley, the over-delivered stocks were also sold resulting in the barley pool being oversold at the end of the crop year.

The value of the over-deliveries totalled $103,288,839 and has been recorded as an advance purchase of the 1988-89 crop. The over-sold barley position which resulted in net revenue of $31,897,681 has been treated as an advance sale of the 1988-89 crop and netted against the advance purchases. All other charges related to the over-delivered and over-sold positions have been appropriately adjusted between the pool accounts.

THE CANADIAN WHEAT BOARD—*Concluded*

FINANCIAL RESULTS AND NOTES TO FINANCIAL STATEMENTS—*Concluded*

NOTES TO FINANCIAL STATEMENTS—*Concluded*

6. Liability to banks

Details of liability to banks are as follows:

	July 31	
	1988	1987
	$	$
Ordinary operations	29,342,978	386,636,692
Loans to finance credit sales	3,581,450,759	3,465,262,727
	3,610,793,737	3,851,899,419

Of the total liability $1,460,724,971 (1987—$1,325,582,645) represents the Canadian equivalent of $1,206,014,672 (1987—$998,931,910) repayable in United States funds.

The Board's borrowings are guaranteed by the Government of Canada.

7. Debentures payable

Debentures with a face value of U.S. $50,000,000 were issued on December 1, 1982, at a price of $99.50 per $100, and bore interest at 11 1/4% per annum payable each December 1. On April 15, 1988, the Board redeemed all the debentures and paid accrued interest to that date. A premium of one percent of principal was payable upon redemption.

8. Liability to agents for grain purchased from producers

Grain companies acting in the capacity of agents of the Board accept deliveries from producers at country elevators and pay the producers on behalf of the Board based on the Board's initial price in effect. Settlement is not made by the Board for these purchases until delivery to the Board is completed by its agents at terminal or mill position. Liability to agents amounting to $11,265,153 (1987—$658,389,287) represents the amount payable by the Board to its agents for 93,990 (1987—5,895,917) tonnes of grain on hand at country elevator points and in transit at July 31 for which delivery to and settlement by the Board is to be completed subsequent to year end date.

9. Liability to agents for deferred cash tickets

Grain companies as agents of the Board deposit with the Board in trust the proceeds of deferred cash tickets issued for Board grain. These monies are returned to the grain companies to cover producer deferred cash tickets maturing predominately during the first days of the following calendar year.

10. Accrued expenses and accounts payable

This item principally comprises accrued carrying charges, storage, interest and transportation charges to July 31, 1988, together with all other unpaid sundry accounts as at the foregoing date. It also includes provisions for all charges relating to the marketing of Pool Accounts for wheat, amber durum wheat, oats, designated oats, barley and designated barley for the period from August 1, 1988, to completion of operations on September 30, 1988.

11. Special account—Net balance of undistributed payment accounts

In accordance with the provision of Section 30 of the Canadian Wheat Board Act the Governor-in-Council may authorize the Board to transfer to a Special Account the unclaimed balances remaining in payment accounts which have been payable to producers for a period of six years or more. In addition to providing for payment of proper claims from producers against these old payment accounts, the Section further provides that these funds shall be used for purposes as the Governor-in-Council upon the recommendations of the Board may deem to be for the benefit of producers.

12. Provision for final payment expenses

This item represents the balance of the Board's reserve for final payment expenses of pool accounts that have been closed. Six years after particular accounts have been closed, the remaining reserves for these pools are transferred to the special account by Order-in-Council.

13. Lease commitments

The Board, as an agent of Her Majesty in Right of Canada, is the lessor of 2,000 covered hopper cars for the Government of Canada. All lease costs are recoverable from the Government and are not a charge to the operations of the Board. Total payments associated with leases in the year ended July 31, 1988, amounting to $16,110,582 (1987—$16,970,573) have been recovered by the Board. Lease terms are for 20 and 25 years.

SUMMARY PAGE

CAPE BRETON DEVELOPMENT CORPORATION

MANDATE

To operate, reorganize and rationalize coal production from the Sydney coal field.

BACKGROUND

Two divisions of the corporation were established in 1967 by the *Cape Breton Development Corporation Act*:

— Established to close down the Cape Breton coal mining industry with minimum dislocation, the Coal Division is still the major employer in the Sydney/Glace Bay area. A resurgence in coal demand locally for power generation has led to an expanded and modernized industry employing approximately 3,300 people. In addition to the Prince and Lingan mines, the corporation operates a coal preparation plant, a complete rail transportation system and a shipping pier. A new Phalen colliery was completed in 1987.

— The Industrial Development Division was created to develop alternative employment opportunities and broaden the base of the local economy. Pursuant to the new (Atlantic Canada, 1987) legislation, this division and its development activities were transferred to the new entity, Enterprise Cape Breton Corporation on December 1, 1988.

CORPORATION DATA

HEAD OFFICE	P.O. Box 2500 Sydney, Nova Scotia B1P 6K9
STATUS	— Schedule III, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Harvie Andre, P.C., M.P.
DEPARTMENT	Industry, Science and Technology
YEAR AND MEANS OF INCORPORATION	1967; by the *Cape Breton Development Corporation Act*, (R.S.C. 1985, c. C-25).
CHIEF EXECUTIVE OFFICER	Ernest Boutilier
CHAIRMAN	John Terry
AUDITOR	Auditor General of Canada

FINANCIAL SUMMARY ($ million) Financial years ending March 31.

	1989*	1988	1987	1986
At the end of the period				
Total Assets	534	626	581	454
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	41	22	7	3
Equity of Canada	449	548	511	401
Cash from Canada in the period				
— budgetary	36	101	164	120
— non-budgetary	19	15	4	(10)

*Prior to 1988-89, financial data in this Summary were consolidated data of the two divisions (Coal, and IDD).

CAPE BRETON DEVELOPMENT CORPORATION

AUDITOR'S REPORT

TO THE MINISTER OF REGIONAL INDUSTRIAL EXPANSION

I have examined the balance sheet of the Coal Division of the Cape Breton Development Corporation as at March 31, 1989 and the related statements of equity, income and changes in financial position for the year then ended, and the consolidated balance sheet of the Industrial Development Division of the Cape Breton Development Corporation as at November 30, 1988, the date of its transfer to Enterprise Cape Breton Corporation (as explained in Note 1), and the related consolidated statements of equity, operating statement and changes in financial position for the period then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, the financial statements of the Coal Division present fairly its financial position as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended, and the consolidated financial statements of the Industrial Development Division present fairly its financial position as at November 30, 1988 and the results of its operations and the changes in its financial position for the period then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation and of its wholly-owned subsidiaries that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Cape Breton Development Corporation Act, the by-laws of the Corporation and the charters and by-laws of the Corporation's wholly-owned subsidiaries.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
June 9, 1989

COAL DIVISION

BALANCE SHEET AS AT MARCH 31
(in thousands of dollars)

ASSETS	1989	1988
Current		
Cash	6,367	1,232
Accounts receivable (Note 3)	7,863	36,774
Inventories, at the lower of cost and net realizable value		
Coal	34,599	34,089
Operating materials and supplies	22,998	20,829
Prepaid expenses	304	65
	72,131	92,989
Fixed (Note 4)	461,890	500,143
	534,021	593,132

LIABILITIES	1989	1988
Current		
Accounts payable—Trade	8,005	19,934
Accrued wages and vacation pay	11,905	12,496
Accrued charges	3,239	4,059
Employees' deductions	8,019	6,116
Due to Government of Canada		
Working capital advances (Note 2(a))	41,000	21,919
Other	12,900	10,433
	85,068	74,957
EQUITY		
Equity of Canada	448,953	518,175
	534,021	593,132

Commitments (Note 5)
Contingent liabilities and claims (Note 6)

On behalf of the Board:

JOHN TERRY
Director

JOHN BARSWICH
Director

CAPE BRETON DEVELOPMENT CORPORATION—*Continued*

COAL DIVISION

STATEMENT OF EQUITY
FOR THE YEAR ENDED MARCH 31
(in thousands of dollars)

	1989	1988
Balance at begining of year	518,175	485,038
Add: payments by Canada in respect of mining losses— Vote 35 (Note 2(a))		1,672
payments by Canada in respect of capital expenditures— Votes 30 and 40 (Note 2(a))	28,000	89,163
	546,175	575,873
Deduct: net mining losses (Note 2(a))	29,693	1,672
depreciation of fixed assets	67,529	56,026
	97,222	57,698
Balance at end of year	448,953	518,175

COAL DIVISION

STATEMENT OF INCOME
FOR THE YEAR ENDED MARCH 31
(in thousands of dollars)

	1989	1988
Revenue		
Coal sales	195,166	206,386
Less: external selling expense	7,678	5,106
	187,488	201,280
Outside railway revenue	3,224	3,558
Operating revenue	190,712	204,838
Operating expenses		
Wages and salaries	84,431	90,820
Holidays and vacations	9,959	9,742
Workers' Compensation	11,109	9,902
Surcharges	16,326	11,432
Materials and supplies	25,898	25,307
Repair materials	15,162	11,427
Electric power	7,735	6,661
Grants in lieu of taxes	3,929	2,797
Royalties	807	796
Hired heavy equipment	5,763	6,823
Other expenses	10,462	5,804
Purchased and capital coal	8,032	20,617
Depreciation	67,529	56,026
Increase in coal inventory	(510)	(16,168)
Total operating expenses	266,632	241,986
Excess of operating expenses over operating revenue	75,920	37,148
Pensions	17,696	16,696
Pre-retirement leave	2,940	3,120
Early retirement incentive	1,924	1,309
Interest and other income	(1,258)	(575)
	97,222	57,698
Deduct: depreciation not deductible in determining mining losses (Note 2 (a))	67,529	56,026
Net mining losses for the year	29,693	1,672

COAL DIVISION

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31
(in thousands of dollars)

	1989	1988
Cash for operating activities		
Net mining losses	(29,693)	(1,672)
(Increase) decrease in non-cash operating working capital*	17,023	(48,451)
	(12,670)	(50,123)
Cash from financing activities		
Payments by Canada		
In respect of mining losses		1,672
In respect of capital expenditures	28,000	89,163
Increase in repayable working capital advances	19,081	14,897
	47,081	105,732
Cash for investing activities		
Purchase of fixed assets	(29,433)	(70,141)
Proceeds from sale of fixed assets	157	26
	(29,276)	(70,115)
Increase (decrease) in cash	5,135	(14,506)
Cash at beginning of year	1,232	15,738
Cash at end of year	6,367	1,232
(Increase) decrease in non-cash operating working capital*		
Accounts receivable	28,911	(20,112)
Coal inventory	(510)	(16,168)
Material inventory	(2,169)	(3,829)
Prepaid expenses	(239)	11
Accounts payable—Trade	(11,929)	(9,205)
Accrued wages and vacation pay	(591)	(510)
Accrued charges	(820)	3,061
Due to Government of Canada—		
Other	2,467	(2,575)
Employees' deductions	1,903	876
	17,023	(48,451)

CAPE BRETON DEVELOPMENT CORPORATION—*Continued*

COAL DIVISION

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1989

1. Authority and objectives

The Corporation was established in 1967 for the purpose of reorganizing and rehabilitating the coal industry on Cape Breton Island, pursuant to the Cape Breton Development Corporation Act. Its current corporate goal is to be a dependable supplier of quality coal and related energy products by operating a safe, commercially viable corporation which will provide a positive working environment through efficient and effective utilization of human, physical and technical resources.

2. Significant accounting policies

(a) Financing

The Corporation, an agent of Her Majesty, is listed as a Schedule III, Part I, corporation for purposes of the Financial Administration Act. The Corporation receives Parliamentary appropriations for capital expenditure and operating loss purposes as well as advances from the Government of Canada for working capital purposes on such terms as may be agreed upon, as provided for in the Cape Breton Development Corporation Act. In addition to the appropriations and advances received during 1988/89, Treasury Board has approved the inclusion of up to $25.0 million in the 1989/90 Supplementary Estimates towards the 1988/89 cash operating loss. Treasury board has indicated that depreciation should not be provided in determining mining losses for Parliamentary appropriation. Accordingly, the depreciation provision has been eliminated in arriving at this amount.

(b) Inventories

Inventories are valued at the lower of cost and net realizable value.

(c) Fixed assets

Fixed assets are stated at cost. The Corporation has provided depreciation on its fixed assets based on their estimated useful lives.

(d) Foreign currency translation

Monetary assets and liabilities are translated at exchange rates in effect at the balance sheet date. Revenue and expenses are translated at the rate of exchange prevailing on the transaction date. The resulting foreign currency translation gains and losses are included in the results of operations.

3. Accounts receivable

	1989	1988
	(in thousands of dollars)	
Trade	6,318	36,726
Employees	1,695	148
	8,013	36,874
Less: allowance for doubtful accounts	150	100
	7,863	36,774

4. Fixed assets

	1989	1988
	(in thousands of dollars)	
Lingan Colliery	173,844	167,252
Prince Colliery	109,398	105,769
Phalen Colliery	200,576	185,928
Donkin-Morien Development Project	80,679	80,679
Coal Preparation Plant	91,358	90,451
Devco Railway	77,941	76,750
Carbogel	7,519	5,195
Other fixed assets	41,029	41,044
	782,344	753,068
Accumulated depreciation	320,454	252,925
	461,890	500,143

Included in fixed assets above is $80,678,573 of cumulative costs to March 31, 1989 on the Donkin-Morien Development Project. The Corporation has provided for depreciation of $26,403,478 against this project to date. The 1989/90 to 1993/94 Corporate Plan submitted to Treasury Board does not provide for development of this project over the next five years. Additional development costs will be required to bring the Project into commercial production.

Also included in fixed assets above is $173,844,388 of cumulative costs to March 31, 1989 on the Lingan Colliery. The Corporation is in the process of evaluating the future of this colliery. It is anticipated this evaluation will be completed during the 1989/90 fiscal year. Depreciation to date, amounting to $121,585,550, has been provided at normal Corporation rates.

5. Commitments

(a) Commitments on capital projects include the following:

Approximately $475,000 for underground mining equipment

Approximately $540,000 for other facilities

(b) The Corporation leases the General Mining Building which houses the offices of the Coal Division. The lease is for a 20-year period, commencing June, 1984, with lease payments of approximately $1,300,000 per annum, at a current interest rate of 11%. The annual lease payments fluctuate with changes in the lessor's mortgage interest rates.

6. Contingent liabilities and claims

(a) Legal matters

(i) A former employee has asserted a claim for alleged wrongful dismissal, and damages for a personal injury from an industrial accident sustained while in the employ of the Corporation.

(ii) A contractor has commenced an action for an alleged breach of contract relating to coal handling.

(iii) A contactor has commenced an action for an alleged breach of contract relating to a capital project.

(iv) A sub-contractor has commenced an action for an alleged breach of contract relating to a capital project for which the Corporation settled with the contractor.

The total amount of these claims is approximately $3.3 million and the Corporation intends to oppose these claims in their entirety.

CAPE BRETON DEVELOPMENT CORPORATION—*Continued*

COAL DIVISION

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1989—*Concluded*

(b) Insurance

The Corporation self insures against the potential loss of underground assets and for a portion of its liability insurance.

7. Long-term sales agreement

The Corporation has signed an agreement with the Nova Scotia Power Corporation which calls for the delivery of a substantial portion of the Corporation's coal production to the Power Corporation. The agreement expires in the year 2010.

8. Pensions

For accounting purposes, the pension expense in each year is comprised of a current and a past service cost. The past service cost, which represents an allocation of the unfunded obligation, is being amortized at the rate it is being funded. The Corporation is of the opinion that this is the most appropriate method since it provides for a systematic manner of amortization which conforms to the Corporation's overall funding by the Government of Canada.

An actuarial valuation of the Corporation's Non-Contributory Pension Plan as at December 31, 1988, indicated an unfunded actuarial liability of $69,009,000 (assets of $99,772,000 and liabilities of $168,781,000). The minimum annual amount required for past and current service, including pension payments, will be approximately $14,390,000 in each year from 1989 to 1992, $6,116,000 from 1993 to 2000 and $4,311,000 from 2001 to 2004. The Corporation has expensed pension payments of $17,696,000 for the year.

An actuarial valuation of the Corporation's Contributory Pension Plan as at December 31, 1987, indicated a fund surplus of $3,095,000 (assets of $21,765,000 and liabilities of $18,670,000). Required Corporation payments in respect of current service costs are funded each year and amounted to approximately $780,000 expensed for the year ended March 31, 1989.

9. Income taxes

The Corporation has applied for refundable investment tax credits in respect of qualified expenditures incurred and qualifying assets purchased after April 19, 1983. The Corporation estimates the refund to be approximately $14,500,000. This amount has not been reflected in these financial statements as Revenue Canada is currently reviewing the Corporation's eligibility for the refundable tax credits.

CAPE BRETON DEVELOPMENT CORPORATION—*Continued*

INDUSTRIAL DEVELOPMENT DIVISION

CONSOLIDATED BALANCE SHEET
AS AT NOVEMBER 30, 1988
(in thousands of dollars)

ASSETS	November 30 1988 Note (1)	March 31 1988
Current		
Cash	1,232	106
Accounts and interest receivable	874	687
Receivable from Province of Nova Scotia	43	
Receivable from Government of Canada		2,200
Inventories	228	242
Prepaid expenses	91	36
	2,468	3,271
Loans and investments (Note 3(d))		
Loans	9,453	9,243
Investments	300	320
	9,753	9,563
Fixed (Notes 3(b) and 4)	20,425	19,398
Other		
Deferred charges		1
	32,646	32,233

LIABILITIES	November 30 1988 Note (1)	March 31 1988
Current		
Accounts payable	1,303	1,970
EQUITY		
Equity of Canada	31,343	30,263
	32,646	32,233

Guarantees (Note 5)
Commitments (Note 6)
Claim (Note 7)

On behalf of the Board:

JOHN TERRY
Director

JOHN BARSWICH
Director

INDUSTRIAL DEVELOPMENT DIVISION

CONSOLIDATED STATEMENT OF EQUITY
FOR THE EIGHT MONTH PERIOD
ENDED NOVEMBER 30, 1988
(with comparative figures for the year ended March 31, 1988)
(in thousands of dollars)

	November 30 1988 (Eight Months)	March 31 1988 (Twelve Months)
Equity at beginning of period	30,263	25,999
Payments during period from Government of Canada—Votes 35 and 45 (Note 2)	7,800	10,600
	38,063	36,599
Deduct: net operating expenses	6,720	6,336
Equity at end of period	31,343	30,263

CAPE BRETON DEVELOPMENT CORPORATION—*Continued*

INDUSTRIAL DEVELOPMENT DIVISION

CONSOLIDATED OPERATING STATEMENT
FOR THE EIGHT MONTH PERIOD
ENDED NOVEMBER 30, 1988
(with comparative figures for the year ended March 31, 1988)
(in thousands of dollars)

	November 30 1988 (Eight Months)	March 31 1988 (Twelve Months)
Development and operating expenses		
Industrial operations and assistance	617	892
Tourist operations and promotions	1,776	1,391
New business development assistance	2,140	3,367
Marine farming operations		4
Real estate operating costs	697	737
Community planning and projects	242	226
Primary production operations	305	451
Scholarships and apprentice programs	24	28
Loss (gain) on disposal of fixed assets	206	(15)
	6,007	7,081
Administration expenses		
Salaries	732	926
Office and miscellaneous expenses	513	541
Professional fees	108	102
Travelling expenses	71	112
	1,424	1,681
Depreciation	1,312	1,604
Provision for unrecoverable loans and accounts receivable	1,042	(114)
	2,354	1,490
Total operating expenses	9,785	10,252
Revenue		
Tourist operations	906	1,037
Real estate rentals	1,068	1,323
Industrial operations	436	586
Interest	631	938
Primary production operations	22	32
Miscellaneous revenue	2	
	3,065	3,916
Net operating expenses	6,720	6,336

INDUSTRIAL DEVELOPMENT DIVISION

CONSOLIDATED STATEMENT OF CHANGES IN
FINANCIAL POSITION
FOR THE EIGHT MONTH PERIOD
ENDED NOVEMBER 30, 1988
(with comparative figures for the year ended March 31, 1988)
(in thousands of dollars)

	November 30 1988 (Eight Months)	March 31 1988 (Twelve Months)
Cash from financing activities		
Payments by Canada—Votes 35 and 45	7,800	10,600
Cash for operating activities		
Net operating expenses	(6,720)	(6,336)
Charges (credits) not affecting cash		
Depreciation	1,312	1,604
Loans forgiven	(14)	129
Loss (gain) on sale of fixed assets	206	(15)
Provision for (recovery of) doubtful accounts	1,112	(91)
	(4,104)	(4,709)
(Increase) decrease in non-cash operating working capital*	1,262	(1,435)
	(2,842)	(6,144)
Cash for investing activities		
Loan repayments	790	3,477
Loan drawdowns	(2,027)	(4,866)
Purchase of fixed assets	(2,603)	(5,277)
Proceeds from sale of fixed assets	58	900
Purchase of investments	(50)	2
	(3,832)	(5,764)
Increase (decrease) in cash	1,126	(1,308)
Cash at beginning of period	106	1,414
Cash at end of period	1,232	106
(Increase) decrease in non-cash operating working capital*		
Accounts receivable	1,970	(1,930)
Inventories	14	(10)
Prepaid expenses	(55)	1
Accounts payable	(667)	504
	1,262	(1,435)

CAPE BRETON DEVELOPMENT CORPORATION—*Concluded*

INDUSTRIAL DEVELOPMENT DIVISION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 1988

1. Transfer to Enterprise Cape Breton Corporation

Under the provisions of the Government Organization Act, Atlantic Canada, 1987, a new corporation, the Enterprise Cape Breton Corporation was created by Order in Council effective December 1, 1988 to assume the assets, liabilities, operations, guarantees, commitments and contingencies of the Industrial Development Division.

As a result, these financial statements reflect only the operations of the Industrial Development Division, including its subsidiaries for the period April 1, 1988 to November 30, 1988. In summary the amounts transferred at December 1, 1988 were as follows:

	$
Assets	32,646,512
Liabilities	1,303,096
Equity	31,343,416
Guarantees	36,478,659
Commitments	4,462,000
Claim	300,000

2. Financing

The Industrial Development Division was financed by way of Vote of the Parliament of Canada. Parliament voted $10,600,000 for this purpose during the fiscal year ended March 31, 1989. During the period the Corporation was limited to, and received, $7,800,000 of this appropriation.

3. Significant accounting policies

(a) Basis of consolidation

(i) The financial statements of the Industrial Development Division include the results of the Division and all its subsidiaries as explained below.

	Corporation interest	Period ended
Darr (Cape Breton) Limited (Real Estate)	100%	November 30
Cape Breton Marine Farming Limited (Inactive)	100%	November 30
Whale Cove Summer Village Limited (Tourist Accommodations)	62.5%	November 30
Dundee Estates Limited (Tourist Accommodations)	100%	November 30

(ii) As the financial statements of Whale Cove Summer Village Limited report a deficit equity position as at November 30, 1988, and the minority interest in losses to date have been absorbed against the total of the minority invested capital, the losses of this company are included in the consolidated net operating expenses. As a consequence, no minority interest for this subsidiary is shown in the consolidated balance sheet.

(b) Fixed assets

Fixed assets are recorded at cost. Depreciation is provided on the straight-line method using rates based on the estimated useful lives of the assets generally as follows:

Buildings	Up to 25 years
Equipment	4 to 10 years
Vehicles	3 to 4 years

(c) Accounting policy—Certain subsidiaries

The financial statements of Dundee Estates Limited include a note indicating that their statements have been prepared on the assumption that the company can continue to operate as a going concern, which assumption depends on the continued financial support of its parent.

(d) Loans and investments

Loans and investments are recorded at the lower of cost and estimated net realizable value.

4. Fixed assets

	November 30 1988	March 31 1988
	(in thousands of dollars)	
Rental facilities	11,226	10,937
Tourist facilities	6,146	6,757
Primary industry facilities	1,799	1,757
Secondary industry facilities	11,914	10,490
	31,085	29,941
Less: accumulated depreciation	10,660	10,543
	20,425	19,398

The four categories of fixed assets shown above each include land, buildings and equipment.

5. Guarantees

During the 1976 year, the Corporation guaranteed the repayment by Sydney Steel Corporation of that corporation's $70,000,000—11 1/4% Series D Debentures and the repayment of interest thereon. These funds were borrowed by Sydney Steel Corporation for the purpose of financing its plant rehabilitation program. The balance of the outstanding debentures has since been reduced to $30,310,000.

The Corporation in 1971 guaranteed the repayment of bank advances to Stora Kopparbergs Bergslags Aktiebolag. This guarantee originally amounted to $30,000,000. The balance of advances has since been reduced to $6,168,659.

The Corporation made the guarantees for and on behalf of Her Majesty the Queen in right of Canada; therefore, any amounts required to be paid shall be paid out of the Consolidated Revenue Fund of Canada.

6. Commitments

(a) As at November 30, 1988, the Industrial Development Division of the Corporation was committed to expenditures and loans over and above the amounts included in the financial statements at that time, totalling $4,462,000.

(b) The Corporation entered an agreement to lease office premises effective May 1, 1987. The lease is for a five year period with lease payments of approximately $254,000 per annum.

7. Claim

A claim in the amount of $300,000 has been received from a local sports organization. Management denies this claim and intends to oppose it in its entirety.

SUMMARY PAGE

DEFENCE CONSTRUCTION (1951) LIMITED

MANDATE

To contract for and supervise major military construction and maintenance projects required by the Department of National Defence; to provide technical and administrative assistance concerning construction matters to government departments and agencies on a cost-recovery basis.

BACKGROUND

The corporation has been in operation since 1951.

CORPORATION DATA

HEAD OFFICE	Sir Charles Tupper Building Riverside Drive Ottawa, Ontario K1A 0K3
STATUS	— Schedule III, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Elmer MacKay, P.C., M.P.
DEPARTMENT	Public Works
YEAR AND MEANS OF INCORPORATION	1951; by the *Defence Production Act* (R.S.C. 1985, c. D-1); continued under the *Canada Business Corporations Act*, November 21, 1978.
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	J.R. Lorne Atchison
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) Financial years ending March 31.

	1989	1988	1987	1986
At the end of the period				
Total Assets	1.0	2.0	1.5	2.6
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	0.3	1.0	0.3	1.4
Equity of Canada	(2.8)	(2.9)	(2.9)	(3.1)
Cash from Canada in the period				
— budgetary	14.0	13.6	13.2	14.3
— non-budgetary	nil	nil	nil	nil

DEFENCE CONSTRUCTION (1951) LIMITED

AUDITOR'S REPORT

TO THE MINISTER OF PUBLIC WORKS

I have examined the balance sheet of Defence Construction (1951) Limited as at March 31, 1989 and the statements of operations and deficit and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the corporation as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Defence Production Act and the by-laws of the corporation.

Raymond Dubois, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 23, 1989

BALANCE SHEET AS AT MARCH 31, 1989

ASSETS	1989	1988
	$	$
Current		
Cash	355,679	1,519,260
Accounts receivable from government departments and agencies (Note 5)	378,089	108,881
Other	36,844	42,159
	770,612	1,670,300
Furniture and equipment, at cost	1,237,863	1,156,399
Less: accumulated depreciation	996,538	851,815
	241,325	304,584
	1,011,937	1,974,884

LIABILITIES	1989	1988
	$	$
Current		
Accounts payable and accrued liabilities	703,234	997,330
Due to Canada	324,653	970,946
Contractors' security deposits	139,725	126,953
	1,167,612	2,095,229
Provision for employee benefits (Note 3)	2,630,065	2,820,854
	3,797,677	4,916,083
CAPITAL STOCK AND DEFICIT		
Capital stock		
Authorized—1,000 shares without par value		
Issued—31 shares	31	31
Deficit (Note 4)	(2,785,771)	(2,941,230)
	(2,785,740)	(2,941,199)
	1,011,937	1,974,884

Approved by the Board:

J. R. L. ATCHISON
Director

L. E. DAVIES
Director

DEFENCE CONSTRUCTION (1951) LIMITED—*Continued*

STATEMENT OF OPERATIONS AND DEFICIT
FOR THE YEAR ENDED MARCH 31, 1989

	1989	1988
	$	$
Expenses		
Salaries	9,887,511	8,969,909
Employee benefits	1,104,531	1,137,504
Travel and removal	928,061	850,638
Telephone	375,190	332,214
Office accommodation	349,370	324,646
Advertising	300,743	237,722
Office supplies and maintenance	268,631	226,047
Postage, express and freight	238,080	216,473
Training and professional development	234,995	173,387
Depreciation	155,248	150,262
Rental of machinery	135,892	115,641
Professional services	121,869	85,121
Other	62,386	51,648
	14,162,507	12,871,212
Recoveries of expenses (Note 5)	642,619	266,027
Cost of operations	13,519,888	12,605,185
Parliamentary appropriation	13,675,347	12,579,054
Excess of cost of operations over parliamentary appropriation (parliamentary appropriation over cost of operations)	(155,459)	26,131
Deficit at beginning of the year	2,941,230	2,915,099
Deficit at end of the year	2,785,771	2,941,230

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1989

	1989	1988
	$	$
Financing activities		
Parliamentary appropriation	13,675,347	12,579,054
Operating activities		
Reported cost of operations	13,519,888	12,605,185
Items not requiring cash		
Provision for employee benefits	(496,508)	(243,696)
Depreciation	(155,248)	(150,262)
Net increase (decrease) in non-cash working capital balances related to operations*	1,191,510	(371,391)
Cash applied to operations	14,059,642	11,839,836
Employee benefits paid	687,297	224,233
Cash applied to operating activities	14,746,939	12,064,069
Investing activities		
Acquisition of equipment	91,989	159,074
Increase (decrease) in cash during the year	(1,163,581)	355,911
Cash at beginning of the year	1,519,260	1,163,349
Cash at end of the year	355,679	1,519,260

* Consisting of changes in receivables, other assets, accounts payable and accrued liabilities, due to Canada, and contractors' security deposits.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989

1. Authority, objectives and operations

The corporation was incorporated under the Canada Corporations Act in 1951 and was continued under the Canada Business Corporations Act, pursuant to the authority of the Defence Production Act, to contract for major military construction and maintenance projects required by the Department of National Defence. The corporation is an agent Crown corporation named in Part I of Schedule III to the Financial Administration Act. The corporation is not subject to income taxes.

The corporation's principal functions in the field of construction management are to obtain tenders, make recommendations regarding proposed awards and to award and administer contracts. As an integral part of its responsibility for contract administration, the corporation inspects the work to ensure completion in accordance with the contract and certifies contractors' progress claims for payment from funds of the Department of National Defence. It also engages architectural and engineering firms to prepare plans and specifications in accordance with the requirements of the Department of National Defence. It may provide technical and administrative assistance on construction matters to other government departments when required.

2. Significant accounting policies

Expenses

The accounts of the corporation reflect only the administrative expenses incurred in procuring the construction and maintenance of defence projects on behalf of the Department of National Defence and in procuring the construction of such other projects as are approved by Treasury Board.

Furniture and equipment

Furniture and equipment are recorded at cost and are depreciated on a straight-line basis over five years.

Pension plan

Employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. The corporation's contributions to the plan are limited to an amount equal to the employees' contributions on account of current and certain past service. These contributions represent the total pension obligations of the corporation and are charged to income on a current basis.

Parliamentary appropriation

The cost of operations is funded by parliamentary appropriation through the Department of National Defence Capital Vote 15 (1988 —Department of Public Works Vote 75) to the extent of net cash requirements.

3. Provision for employee benefits

	1989	1988
	$	$
Termination benefits	2,356,547	2,520,628
Life insurance	54,608	79,115
Furlough benefits	218,910	221,111
	2,630,065	2,820,854

DEFENCE CONSTRUCTION (1951) LIMITED—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989—*Concluded*

4. Deficit

The deficit of the corporation is comprised primarily of the liabilities for employee benefits which will require funding from parliamentary appropriations in future years as they are paid.

5. Recoveries of expenses

The corporation provides certain technical and administrative assistance to the Department of National Defence and other government departments and agencies on a cost-recovery basis. As at March 31, 1989, accounts receivable for recoveries were $378,089 (1988—$108,881).

During the year, in the normal course of operations, the Department of National Defence provided office space free of charge for employees of the corporation.

6. Lease commitments

The corporation leases certain equipment and accommodation in the performance of its operations. These arrangements include an occupancy agreement expiring August 1991 with the Department of Public Works for office accommodation. The future minimum lease payments are:

Year ending March 31	$
1990	269,915
1991	242,507
1992	106,901
	619,323

7. Contingencies

Claims aggregating approximately $8,970,000 in respect of contractual obligations have been received by the corporation, but are not reflected in the accounts. In the opinion of management and legal counsel, the position of the corporation is defensible. However, the final outcome of such claims is not determinable. Any settlements resulting from the resolution of these claims will be funded through parliamentary appropriations of the Department of National Defence, in the year in which the settlements occur.

8. Supplementary information

The corporation's contracting activity on behalf of government departments and agencies is summarized below:

	1989	1988
	(in thousands of dollars)	
Contracts in progress at beginning of the year	591,971	522,472
Contracts awarded	572,727	273,537
	1,164,698	796,009
Contracts completed	190,676	204,038
Contracts in progress at end of the year	974,022	591,971
Payments on contracts in progress at end of the year	572,448	472,282
Work outstanding on contracts in progress at end of the year	401,574	119,689

SUMMARY PAGE

ENTERPRISE CAPE BRETON CORPORATION

MANDATE

To promote and assist the financing and development of industry on the Island of Cape Breton to provide employment outside the coal producing industry and to broaden the base of the economy of the Island.

BACKGROUND

The Industrial Development Division (IDD) of the Cape Breton Development Corporation has been continued as a separate Crown corporation, Enterprise Cape Breton Corporation which commenced operation on December 1, 1988. To ensure coordination of development policies within the region, this corporation reports to the Minister responsible for Atlantic Canada Opportunities Agency, and the Agency and the corporation have the same President. Upon assuming the activities, programs and properties of the IDD, revised programs were established to promote industrial development on Cape Breton Island and in the northeast part of the Nova Scotia mainland.

CORPORATION DATA

HEAD OFFICE	P.O. Box 1750 Sydney, Nova Scotia B1P 6T7
STATUS	— Schedule III, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Elmer MacKay, P.C., M.P. Minister for the purposes of the *Atlantic Canada Opportunities Agency Act*
YEAR AND MEANS OF INCORPORATION	1988; by The *Government Organization Act, Atlantic Canada, 1987.* (S.C. 1988, c.50)
CHIEF EXECUTIVE OFFICER	Patrick Bates
CHAIRMAN	Stuart Hickey
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The corporation's plans are that its financial year shall end on March 31.

	Balance Sheet March 31, 1989*
Total Assets	37.5
Obligations to the private sector	nil
Obligations to Canada	nil
Equity of Canada	30.6

*The corporation's assets etc. at commencement of its operations are essentially those assumed when the business of the Industrial Development Division was transferred to it.

ENTERPRISE CAPE BRETON DEVELOPMENT

THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 1989
WERE NOT AVAILABLE AT DATE OF PRINTING

SUMMARY PAGE

EXPORT DEVELOPMENT CORPORATION

MANDATE

Export Development Corporation (EDC) is Canada's official export credit agency, responsible for facilitating and developing export trade by the provision of credit insurance, loans, guarantees, and other financial facilities to promote Canadian export trade.

BACKGROUND

In addition to its corporate activities, EDC administers for Canada certain export insurance and financing in support of export transactions considered to be in the national interest.

CORPORATION DATA

HEAD OFFICE	151 O'Connor Street P.O. Box 655 Ottawa, Ontario K1P 5T9
STATUS	— Schedule III, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John Crosbie, P.C., Q.C., M.P., Minister for International Trade.
DEPARTMENT	External Affairs
YEAR AND MEANS OF INCORPORATION	1969; by the *Export Development Act*, (R.S.C. 1985, c. E-20).
CHIEF EXECUTIVE OFFICER	R.L. Richardson
CHAIRMAN	V.E. Daughney
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

CORPORATE ACCOUNT	**1988**	**1987**	**1986**	**1985**
At the end of the year				
Total Assets	6,522	6,933	7,173	7,296
Obligations to the private sector*	4,113	4,560	4,727	4,948
Obligations to Canada	nil	25	80	154
Equity of Canada	904	899	898	896
Cash from Canada in the year				
— budgetary	nil	nil	nil	nil
— non-budgetary	nil	nil	nil	37
CANADA ACCOUNT				
At the end of the year				
Canada assets administered	926	871	880	1,142

* Obligations to the private sector reported here have been reduced by the amount of EDC's cash and marketable securities: 1988, $1,108 million; 1987, $1,039 million.

EXPORT DEVELOPMENT CORPORATION

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements contained in this annual report have been prepared by management in accordance with accounting principles generally accepted in Canada, consistently applied, which conform in all material respects with international accounting standards. The integrity and objectivity of the data in these financial statements are management's responsibility. The financial statements include some amounts, such as the allowance for losses on loans, that are necessarily based on management's best estimates and judgement.

In this report the Auditor General has stated that in his opinion the value of sovereign loans receivable are significantly overstated because management's estimate for the allowance for losses is significantly understated and therefore does not conform to generally accepted accounting principles. The basis for this qualification is that the Auditor General does not agree with the Corporation's policy on the ultimate collectibility of sovereign loans receivable as stated in Note 2 to the financial statements. The Board of Directors and management are in fundamental disagreement with the Auditor General's opinion.

During the year, the Corporation has recognized increasing risk in the loans receivable portfolio. In view of this, management has increased the charge to income relating to the general allowance as a reflection of its best estimate of the amount necessary to cover this risk. The Corporation's non-accrual of income policy with respect to non-current loans together with provision expenses, has reduced revenue by $171.3 million in fiscal 1988 in response to repayment difficulties currently being experienced by many countries. These policies and resultant allowances described in note 7 to the financial statements, when combined with the greatly improved quality of the committed but undisbursed loans receivable portfolio, have led the Board to conclude that ultimate recovery estimates on sovereign risk loans are proper and that additional loan loss reserves are neither necessary nor appropriate.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board, which is composed of directors who are not employees of the Corporation. The Audit Committee meets with management, the internal auditors and the Auditor General of Canada on a regular basis.

The Board of Directors is responsible for all business undertaken by the Corporation. Contracts which, in the opinion of the Board of Directors, involve risks for a term or an amount in excess of that which the Corporation would normally undertake, may be entered into under the authority of the Governor General in Council where the Minister considers them to be in the national interest. The Board of Directors is not accountable for such contracts, its obligation in relation thereto being limited to ensuring that they are administered in a sound manner. Funds required for such contracts are paid to the Corporation by Canada, and funds recovered are remitted to Canada, net of amounts withheld to cover related administrative expenses. The administration of accounts on behalf of Canada are shown in Note 13 to the Corporation's financial statements.

The Auditor General of Canada conducts an independent examination, in accordance with generally accepted auditing standards, and expresses his opinion on the financial statements. His report is presented on the following page.

R.L. Richardson
President and Chief Executive Officer

M.D.J. Bakker
Senior Vice-President Finance and Treasurer

EXPORT DEVELOPMENT CORPORATION

AUDITOR'S REPORT

TO THE MINISTER FOR INTERNATIONAL TRADE

I have examined the balance sheet of the Export Development Corporation as at December 31, 1988 and the statements of income and retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards in Canada, conforming with International Auditing Guidelines, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

Loans receivable of $5.346 billion include sovereign loans in the amount of $4.726 billion and a general allowance for losses on loans of $107.8 million. In my opinion, the value of sovereign loans receivable is significantly overstated because management's estimate of the allowance for losses on loans is significantly understated and, therefore does not conform to generally accepted accounting principles. The scope of my examination was sufficient to enable me to reach this conclusion. I could not, however, determine the precise magnitude of the overstatement of loans receivable. If an appropriate allowance for losses on loans had been established, the provision for losses on loans would have been significantly increased, net income would have become a significant loss for the year and retained earnings would likely have become a deficit.

In my opinion, except for the significant overstatement of the value of loans receivable as described in the preceding paragraph, these financial statements present fairly the financial position of the Corporation as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles in Canada, conforming with International Accounting Standards, applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Export Development Act and the by-laws of the Corporation.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
March 1, 1989

BALANCE SHEET AS AT DECEMBER 31, 1988
(in thousands of dollars)

ASSETS	1988	1987
Loans receivable (Notes 3, 4, 5 and 6)		
Long-term	4,549,788	4,913,674
Short-term	795,367	846,961
	5,345,155	5,760,635
Accrued interest and fees	167,970	223,220
	5,513,125	5,983,855
Less: allowance for losses on loans (Note 7)	166,635	163,135
	5,346,490	5,820,720
Cash and marketable securities		
Cash and short-term deposits	985,913	732,996
Marketable securities (Market value: 1988—$122,231; 1987—$314,726)	121,838	305,673
Accrued interest	16,750	15,460
	1,124,501	1,054,129
Other assets		
Unamortized debt discount and issue expenses	30,183	39,755
Other	21,279	18,124
	51,462	57,879
	6,522,453	6,932,728

LIABILITIES	1988	1987
Loans payable (Note 8)		
Long-term	2,882,223	2,899,497
Current portion of long-term	470,520	1,030,025
	3,352,743	3,929,522
Short-term	1,867,978	1,694,595
	5,220,721	5,624,117
Accrued interest	165,988	202,660
	5,386,709	5,826,777
Other liabilities and deferred revenues		
Accounts payable	28,266	5,369
Deferred revenues and other credits	159,241	165,769
Allowance for claims on insurance and guarantees	44,567	35,369
	232,074	206,507
SHAREHOLDER'S EQUITY		
Share capital (Note 9)	697,000	697,000
Reserve for contingencies	100,000	100,000
Retained earnings	106,670	102,444
	903,670	899,444
	6,522,453	6,932,728

Commitments and contingent liabilities (Note 10)

Approved by the Board of Directors:

M. D. J. BAKKER
Chief Financial Officer

V. EDWARD DAUGHNEY
Director

R. L. RICHARDSON
Director

EXPORT DEVELOPMENT CORPORATION—*Continued*

STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Loans and guarantees		
Interest earned	481,829	522,213
Fees earned	24,641	25,238
Investment interest earned	82,493	92,612
	588,963	640,063
Interest expense		
Long-term	342,191	446,390
Short-term	141,198	123,400
Provision for losses on loans	81,926	50,710
	565,315	620,500
	23,648	19,563
Insurance and guarantees		
Premiums and fees earned	23,527	19,762
Investment interest earned	6,604	5,042
	30,131	24,804
Provision for claims	12,721	8,468
	17,410	16,336
Income from operations	41,058	35,899
Administrative expenses	36,832	34,401
Net income	4,226	1,498
Retained earnings		
Beginning of year	102,444	175,946
Less: transfer to reserve for contingencies		75,000
End of year	106,670	102,444

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Operations		
Statement of income		
Net income	4,226	1,498
Items not affecting cash		
Provision for losses on loans	81,926	50,710
Provision for claims	12,721	8,468
Decrease in accruals of interest and fees	17,184	67,019
Other changes	15,873	4,197
	131,930	131,892
Assets and liabilities		
Loans receivable disbursed	(582,311)	(622,940)
Loans receivable repaid	707,200	581,777
Items not affecting cash		
Net increase (decrease) in deferred revenue	(2,250)	44,166
Interest rescheduled	(54,336)	(126,988)
Non-current loan interest written off	(65,455)	(17,097)
	2,848	(141,082)
Cash provided from (used in) operations	134,778	(9,190)
Treasury		
Issue of long-term debt	738,445	635,816
Repayment of long-term debt	(1,022,593)	(824,348)
Increase in short-term loans	307,574	201,034
Cash provided from financing	23,426	12,502
Increase in cash and marketable securities	158,204	3,312
Foreign exchange on opening balance of cash	(89,122)	(58,409)
Cash and marketable securities		
Beginning of year	1,038,669	1,093,766
End of year	1,107,751	1,038,669

EXPORT DEVELOPMENT CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS

1. Act of incorporation and corporate mandate

Export Development Corporation was established on October 1, 1969 by the Export Development Act, a statute of the Parliament of Canada. The Corporation was created as an agent of Her Majesty in right of Canada for the purpose of facilitating and developing trade between Canada and other countries, by the provision of loans, guarantees and insurance. The Corporation is accountable for its affairs to Parliament through the Minister for International Trade.

2. Summary of significant accounting policies

These financial statements are prepared in accordance with accounting principles generally accepted in Canada, consistently applied, and conform in all material respects with international accounting standards. A summary of significant accounting policies follows:

Loans receivable

Loans receivable, mainly to sovereign entities, are stated in the Canadian dollar equivalent of the original amounts disbursed less repayments and includes where applicable interest capitalized as part of the rescheduling or restructuring process of loans with payment difficulties.

As an export credit agency and an agent of Her Majesty in right of Canada, the Corporation benefits from Canada's membership in the Paris Club, an international group, formed to deal on a multilateral basis with payment difficulties experienced by sovereign entities. Through the auspices of this Club and with subsequent negotiation, rescheduling agreements are arranged coupled with the implementation of International Monetary Fund disciplines to alleviate these payment problems. This negotiation process normally takes up to one year and is considered by the Corporation as part of its normal collection routine.

It is management's opinion, based on the Corporation's experience, that except in the rare instance of outright repudiation or the write-off of asset value agreed to by creditors the ultimate collectibility of a sovereign obligation is not subject to question although indefinite delays in repayment of principal and interest may have to be accepted. This opinion is also shared by the Government of Canada as stated in its accounting policies in the Public Accounts. Although it is not possible at this time for management to accurately determine the amount, if any, of the financial impact of these uncertainties and delays, the Corporation in order to be prudent has established policies with respect to non-current sovereign loans and a general allowance for any financial impact from these loans.

Non-current loans receivable

Subsequent to a review of the payment history and an assessment of the collectibility of the loans, the Corporation may deem certain loans non-current. Non-current is defined as any loan where there is significant doubt as to collectibility in the short to medium term, where significant payments have not been received for a period of one year after a rescheduling agreement has been signed, or two years where rescheduling measures have not been undertaken. As a result, the Corporation terminates all interest accruals on these loans and reverses previously accrued interest over the twelve month period following the loan becoming non-current. As well the capitalization of interest in future rescheduling agreements is not recognized for accounting purposes.

Non-current loans are restored to an accrual basis when regular repayment patterns of all or substantially all amounts due have been established, which is usually over a one to two year time period and normally after a rescheduling agreement has been signed, and there is reasonable assurance that the repayment pattern will continue in future years.

In addition to not recognizing interest on these loans, any undisbursed balances on signed loan agreements are cancelled or frozen, and sovereign borrowers are declared ineligible for further financing to prevent any increased exposure resulting from new business.

Specific allowance for losses on commercial loans receivable

The allowance for losses on loans is based on a review of collectibility, at least annually, of all loans to commercial borrowers. As the result of this review the Corporation charges to income an amount sufficient to specifically provide for potential losses on commercial loans. The allowance is deducted from the loans receivable portfolio to reflect the impairment of the related commercial loan assets.

General allowance for losses on loans receivable

In addition to specific allowances for losses on commercial loans, the Corporation prudently sets aside a general allowance, equal to two per cent of the loans receivable portfolio for which no specific provision has been made. This allowance reflects management's estimate of the potential costs associated with delays in receipt of payments, which would require the Corporation, in accordance with the non-current policy, to charge previously recognized interest revenue on these loans to the allowance. Although this allowance is unrelated to any specific loan principal, either sovereign or commercial, it is also deducted from loans assets which include accrued interest and fees.

Reserve for contingencies

The Corporation has established, through transfers from retained earnings, a reserve for contingencies with respect to possible unforeseen decreases in the value of loans receivable or claims on insurance and guarantees. Subsequent reductions, if any, in the reserve for contingencies will be credited to retained earnings.

Non-accrued interest on loans receivable

The cumulative amount of non-accrued interest and non-recognized capitalized interest has the effect over time of increasing the amounts legally due to the Corporation. This is recognized in the ongoing collection process and the rescheduling negotiations. It is management's best estimate that this accounting approach is the most appropriate and provides the Corporation with additional off balance sheet allowances.

Loan interest and fees earned

Interest is accrued on principal receivable until such time as the loan becomes non-current.

Loan fees are taken into income over the disbursement and repayment periods of a loan.

Marketable securities

Marketable securities are valued at the lower of cost and market value as at the balance sheet date.

Allowance for claims on insurance and guarantees

The Corporation provides for claims based on claims experience augmented, if necessary, by a specific provision based on a review of contingent liabilities. Claims payments are recorded at estimated recoverable values and included with other assets and non-recoverable amounts are charged to the allowance. Subsequent net gains or losses on recovery are credited or charged to the allowance.

Investment interest earned

Investment interest, which is substantially earned outside Canada, is prorated between loans and guarantees and insurance and guarantees on the basis of average funds invested.

EXPORT DEVELOPMENT CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS—*Continued*

Interest expense

Interest expense includes hedging expenses, and the amortization of debt discount and issue expenses which are charged to income over the life of the debt on a straight line basis.

Insurance premiums

Insurance premiums and fees are earned in Canada. For short-term insurance policies, premiums are taken into income at the commencement of coverage. Premiums on other export insurance policies are taken into income, using methods which generally reflect the exposures over the terms of the policies. Foreign investment insurance premiums are taken into income evenly over the terms of coverage, except that the premium in the first year is taken into income in its entirety when received.

Translation of foreign currency

The Corporation hedges its U.S. dollar assets and liabilities on a total portfolio basis. Any net exposure to future changes in the U.S. dollar foreign exchange rate is due to short-term timing differences in cash flows. It is the Corporation's policy to manage assets and liabilities denominated in U.S. dollars in such a way as to minimize this net exposure. Accordingly, assets and liabilities denominated in U.S. dollars are translated into Canadian dollars at exchange rates prevailing at year-end.

Gains and losses relating to the translation of any unhedged long-term foreign currency assets or liabilities in other than U.S. dollars are deferred and amortized on a straight line basis over the remaining life of the asset or liability. The unamortized balance of the deferred exchange gains or losses is included in deferred revenues or other assets.

Income and expenses are translated at average monthly exchange rates in effect during the year. Exchange gains and losses resulting from the translation of foreign currency balances and transactions are reported with investment interest earned.

3. Loans receivable

Performing and non-current loans receivable from both sovereign and commercial borrowers are mostly at fixed interest rates established in competition with similar export credit agencies in other countries and generally below commercial rates. These loans mature as follows:

	December 31	
	1988	1987
	(in thousands of dollars)	
Non-current	692,468	651,414
Within 12 months		
—Fixed	540,195	608,636
—Floating	108,174	92,725
Overdue	146,998	145,600
1989		706,176
1990	688,819	681,089
1991	630,588	642,046
1992	572,785	563,070
1993	445,808	418,680
1994-1998	1,298,611	1,030,153
1999 and thereafter	220,709	221,046
Total	5,345,155	5,760,635
Commercial loans included above	769,060	992,344
Floating rate loans, generally based on LIBOR rates, included in total loans	1,276,692	1,126,556
The geographic distribution of these loans is as follows:		
Pacific and North Asia	562,986	628,873
South Asia	372,815	341,868
Middle East and East Africa	397,349	410,692
North and West Africa	1,119,639	1,143,924
Eastern Europe	641,320	769,871
Western Europe	479,018	502,203
USA and Caribbean	455,453	539,614
Mexico and Central America	297,716	335,954
South America East	467,561	529,014
South America West	551,298	558,622
	5,345,155	5,760,635

4. Overdues on performing loans receivable

Amounts overdue consist of principal instalments and billed interest and fees that have not been received in accordance with the specified terms contained in the related loan agreements.

The geographic distribution of the overdue principal and recognized interest, in the amounts of $146,998 thousand (1987—$145,600 thousand) and $62,612 thousand (1987—$124,104 thousand) respectively, is as follows:

	December 31	
	1988	1987
	(in thousands of dollars)	
Pacific and North Asia	2,283	4,904
South Asia		468
Middle East and East Africa	22,927	73,060
North and West Africa	29,178	30,652
Eastern Europe	7	21
Western Europe	5,388	20,911
USA and Caribbean	16,469	287
Mexico and Central America	2,748	17,526
South America East	124,811	74,232
South America West	5,799	47,643
Total	209,610	269,704

EXPORT DEVELOPMENT CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS—*Continued*

5. Rescheduled and restructured amounts on performing loans receivable

Rescheduled and restructured amounts during the year are as follows:

	December 31	
	1988	1987
	(in thousands of dollars)	
Principal	108,175	197,706
Interest	50,095	80,265
	158,270	277,971

The geographic distribution of rescheduled and restructured loans receivable is as follows:

	December 31	
	1988	1987
	(in thousands of dollars)	
Pacific and North Asia	15,796	9,076
South Asia		799
Middle East and East Africa	83,585	
North and West Africa	143,094	148,462
Eastern Europe		
Western Europe	64,972	96,298
USA and Caribbean	37,830	44,127
Mexico and Central America	69,335	87,732
South America East	167,329	181,544
South America West	19,773	11,241
	601,714	579,279
Commercial amounts included above	38,614	68,162
Amounts overdue	15,765	33,395

6. Non-current loans receivable

Due to the weakening of economic conditions over time, certain loans, where there is risk of long repayment delays or, in respect of commercial loans, significant doubt as to collectibility, are placed in the non-current category. Non-current amounts receivable are as follows:

	December 31	
	1988	1987
	(in thousands of dollars)	
Sovereign, mainly in Eastern Europe and South America West	593,208	585,533
Commercial, mainly in the USA	99,260	121,199
	692,468	706,732

In addition, at December 31, 1988, the accumulated interest not recognized on loans amounted to $341,122 thousand (1987—$205,697 thousand) of which $286,063 thousand related to sovereign loans (1987—$163,109 thousand). Total interest on non-current loans not recognized as revenue in 1988 amounted to $89,438 thousand (1987—$79,729 thousand).

7. Allowances and reserves

Allowances and reserves are as follows:

	December 31	
	1988	1987
	(in thousands of dollars)	
Loans		
General allowance	107,819	78,108
Specific allowance	58,816	85,027
	166,635	163,135
Off balance sheet allowance		
Non-accrued interest revenue	341,122	205,697
Insurance		
Allowance for claims	44,567	35,369
Reserve for contingencies	100,000	100,000

Loans

Allowances were increased by $171,364 thousand (1987—$130,439 thousand) in the year of which $81,926 thousand (1987—$50,710 thousand) was charged through the income statement.

The $89,438 thousand (1987—$79,729 thousand) of non-accrued revenue in the year was augmented by $65,455 thousand (1987—$17,097 thousand) written off interest accrued on non-current loans during the one to two year qualification period. In accordance with Corporate accounting policies this write-off was charged against the general allowance.

Other decreases in the allowances and accumulated non-accrued revenue were due mainly to foreign exchange on U.S. dollar denominated sections of the allowance of $12,971 thousand and $19,468 thousand (1987—$6,839 thousand and $5,621 thousand).

Insurance

The allowance for claims was augmented by $12,721 thousand (1987—$8,468 thousand) in the year. Net write-offs against the allowance totalled $3,523 thousand (1987—$6,511 thousand).

Reserve for contingencies

The reserve for contingencies was not augmented by transfers from retained earnings in 1988 (1987—$75 million).

8. Loans payable

Loans payable mature as follows:

	December 31	
	1988	1987
	(in thousands of dollars)	
Within 12 months		
—Fixed	518,221	1,045,223
—Floating	1,820,277	1,679,397
1989		511,220
1990	773,517	804,305
1991	540,142	336,693
1992	633,222	570,718
1993	229,797	136,426
1994 to 1998	705,545	540,135
Total	5,220,721	5,624,117
Commercial loans included above		
Fixed interest rates from 5.38% to 13.5% (1987—5.38% to 14.13%)	2,645,172	3,336,229
Floating rate and short-term fixed rate revolving loans	2,575,549	2,262,888
Canada loans included above (1987—Fixed interest rate at 8.375%)		25,000

EXPORT DEVELOPMENT CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS—*Concluded*

The Corporation also had lines of credit and overdraft facilities aggregating $2,618 million at December 31, 1988 (1987—$3,555 million).

9. Share Capital

The authorized share capital is $1.5 billion consisting of 15 million shares with a par value of $100 each. The number of shares issued and fully paid is 6,970 thousand (1987—6,970 thousand).

10. Statutory limits, commitments and contingent liabilities

The Export Development Act (the Act) allows the Corporation to have outstanding loans and commitments to foreign borrowers up to a maximum of $15 billion. The position against this limit, determined in accordance with the requirements of the Act, is $7,337 million (1987—$7,704 million). Of this amount, undisbursed commitments on signed loan agreements at face rates from 7.40% to 12.50% is $1,933 million (1987—$1,868 million) with the balance representing loans receivable and loans with recourse to the Corporation.

The Corporation expects to fund these undisbursed commitments near the time of their disbursement, typically over a three year period, by issuing a combination of debt instruments in world capital markets at commercial rates of interest and capital stock. The Corporation generally attempts to match debt maturities and currencies with those of its average export loans.

The Act also specifies that the Corporation can incur liabilities under contracts of insurance, related guarantees and guarantees pertaining to the lending program, up to a maximum of $15 billion. The position against this limit, determined in accordance with the requirements of the Act, is $3,431 million (1987—$3,047 million).

Contingent liabilities of the Corporation included in the above positions amounted to $2,754 million (1987—$2,273 million). Of this amount, $61 million (1987—$67 million) related to loan guarantees and bank participations. The balance pertained to the Corporation's insurance activities.

The Act allows the Corporation to borrow up to a maximum of ten times the aggregate of its paid-in capital from time to time and the retained earnings determined in accordance with the most recent audited financial statements. As at December 31, 1988, this formula produced a limit of $7,994 million (1987—$8,729 million) against which borrowings amounted to $5,221 million (1987—$5,624 million).

11. Foreign currency balances

The Corporation has substantial assets and liabilities in U.S. dollars and in other currencies. The Canadian dollar equivalent after taking into consideration forward exchange contracts is as follows:

	December 31 1988	December 31 1987
	(in thousands of dollars)	
U.S. Dollars		
Assets	4,634,279	5,082,409
Liabilities	4,680,168	5,236,999
Net exposure	(45,889)	(154,590)
Rate of exchange U.S. $1.00	1.1925	1.2993
Austrian schillings, British pounds, Deutsche marks, European Currency units, French francs, Swiss francs and Yen		
Assets	228,003	119,284
Liabilities	188,697	95,964
Net exposure	39,306	23,320

12. Related party transactions

Transactions with Canada are summarized as follows:

	December 31 1988	December 31 1987
	(in thousands of dollars)	
Income and expense items		
Interest expense	1,648	3,603
Less: administrative expenses recovered	6,923	6,622
interest earned	470	469
	(5,745)	(3,488)

	December 31 1988	December 31 1987
	(in thousands of dollars)	
Amounts due to (due from) Canada		
Canada bonds, bearing interest at the rate of 9.50% maturing in 1994	(5,028)	(5,033)
Accrued interest receivable	(22)	(22)
Accounts administered for Canada	21,209	426
Long-term loans payable		25,000
Accrued interest payable		447
	16,159	20,818

The Government of Canada has established an understanding that it will seek Parliamentary appropriations to eliminate any losses the Corporation might incur. No such appropriation has been required to date.

The Corporation is not subject to the requirements of the Income Tax Act with respect to its earnings.

The Corporation also enters into transactions with other Crown corporations in the normal course of business.

13. Accounts administered for Canada

(a) Pursuant to the Act, the Corporation administers for Canada certain loans and insurance programs entered into under the authority of the Governor in Council for which the Board of Directors is not accountable other than in respect of the administration of the contracts. These accounts are maintained separately from the Corporation's accounts, and are consolidated annually as at March 31 with the financial statements of the Government of Canada which are reported upon separately by the Auditor General of Canada. The assets administered for Canada, mainly loans receivable and accrued interest and fees recorded in accordance with accounting policies and practices approved by the Government of Canada, amounted to $926 million (1987—$871 million).

(b) Canada account statutory limits, commitments and contingent liabilities

The Act allows the Accounts administered for Canada to have outstanding loans and commitments to foreign borrowers up to a maximum of $6 billion. The position against this limit, determined in accordance with the requirements of the Act, is $1,201 million (1987—$956 million).

The Act also specifies that the Accounts administered for Canada can incur liabilities under contracts of insurance, related guarantees and guarantees pertaining to the lending program up to a maximum of $7 billion. The position against this limit, determined in accordance with the requirements of the Act, is $321 million (1987—$370 million). Contingent liabilities of the Accounts Administered for Canada included in the above positions amounted to $298 million (1987—$330 million).

SUMMARY PAGE

FARM CREDIT CORPORATION

MANDATE

To assist Canadian farmers to establish and develop viable farm enterprises through the provision of long-term credit and other financial services.

BACKGROUND

Since 1959, under the authority of the *Farm Credit Act*, the corporation has made mortgage loans to farmers for the purchase of farm land, livestock and machinery, for permanent farm improvements and to refinance debt. Under the authority of the *Farm Syndicates Credit Act*, the corporation may make loans to groups of farmers for the joint acquisition of agricultural facilities and equipment. The maximum loan for an individual farm is $600,000 and for a syndicate is $100,000. As at March 31, 1989 the corporation had 67,216 loans outstanding. The corporation maintains six regional offices and about 100 district and field offices.
The corporation's loan payments (receivable) in arrears declined in total in 1988-89 following eleven successive years of increase in these arrears.

CORPORATION DATA

HEAD OFFICE	P.O. Box 2314, Station D 434 Queen Street Ottawa, Ontario K1P 6J9
STATUS	— Schedule III, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Don Mazankowski, P.C., M.P. Deputy Prime Minister and Minister of Agriculture
DEPARTMENT	Agriculture
YEAR AND MEANS OF INCORPORATION	1959; by the *Farm Credit Act* (R.S.C. 1985, c. F-2). Its predecessor was the Canadian Farm Loan Board, founded in 1929.
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	James J. Hewitt
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) Financial years ending March 31.

	1989	1988	1987	1986
At the end of the period				
Total Assets	4,032	4,307	4,909	5,015
Obligations to the private sector	1,328	1,328	1,600	984
Obligations to Canada	3,254	3,486	3,305	3,896
Equity of Canada	(671)	(637)	(125)	8
Cash from Canada in the period				
— budgetary	nil	15*	5	nil
— non-budgetary, net of loans repaid	(229)	179	(591)	(214)

* In addition to the direct payments from Canada, the corporation received cash from the Department of Agriculture in compensation for financial concessions to clients(1987-88, $18.4 million).

FARM CREDIT CORPORATION

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of Farm Credit Corporation and all information in this annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements include some amounts, such as the allowance for loan losses, that are necessarily based on management's estimates and judgement.

The financial statements have been prepared in accordance with accounting principles which are generally accepted in Canada and which have been consistently applied. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by internal audit which conducts periodic reviews of different aspects of the Corporation's operations. In addition, the internal and external auditors have full and free access to the Audit Committee of the Board, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting.

A special examination of the Corporation's systems and practices was due to be completed by September 1, 1989. The Board decided to reschedule the special examination to begin in September, 1989 with the report due in December, 1990. This decision is based on the Corporation deriving greater benefits from the examination being performed on practices and systems which are currently in the process of being implemented.

The independent auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing his report thereon.

James J. Hewitt, C.M.A.
Chairman and Chief Executive Officer
Max Pierce
Senior Vice-President
Finance

AUDITOR'S REPORT

TO THE MINISTER OF AGRICULTURE

I have examined the balance sheet of Farm Credit Corporation as at March 31, 1989 and the statements of operations and deficit and changes in cash position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1989 and the results of its operations and the changes in its cash position for the year then ended in accordance with general accepted accounting principles applied on a basis consistent with that of the preceding year.

Section 138 of the Financial Administration Act requires the Corporation to cause a special examination of its systems and practices to be carried out at least once every five years. Accordingly, the first special examination should be completed by September 1, 1989. However, on December 15, 1988, the Corporation decided that, in view of the significant changes planned to its systems and practices, December 1990 would be established as the date for completion of the first special examination. This decision to defer the completion date is not in accordance with Part X of the Financial Administration Act.

Further, in my opinion, except that the Corporation has decided to defer the completion of the special examination beyond the deadline established by Part X of the Financial Administration Act as described in the preceding paragraph, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Farm Credit Act and the by-laws of the Corporation.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
June 9, 1989

BALANCE SHEET AS AT MARCH 31, 1989
(in thousands of dollars)

ASSETS	1989	1988
Cash and short-term investments	40,894	18,981
Accounts receivable	4,720	632
Loans, net of allowance for loan losses of $350,000 (1988—$500,000) (Notes 3 and 4)	3,832,351	4,201,630
Real estate acquired in settlement of loans (Note 5)	135,642	66,204
Fixed assets (Note 6)	3,793	3,481
Unamortized debt discount and issue expenses	14,319	19,467
	4,031,719	4,310,395

LIABILITIES	1989	1988
Accounts payable and accrued liabilities	6,549	7,174
Short-term notes	69,269	181,943
Provision for employee termination benefits	2,807	2,340
Loans payable (Notes 7 and 8)	4,624,285	4,755,567
	4,702,910	4,947,024
DEFICIENCY OF CANADA		
Contributed capital (Notes 9 and 15)	218,333	218,333
Deficit	(889,524)	(854,962)
	(671,191)	(636,629)
	4,031,719	4,310,395

The accompanying notes are an integral part of the financial statements.

Approved by:

JAMES J. HEWITT, C.M.A.
Chairman and Chief Executive Officer

MAX PIERCE
Senior Vice-President, Finance

FARM CREDIT CORPORATION—*Continued*

STATEMENT OF OPERATIONS AND DEFICIT
FOR THE YEAR ENDED MARCH 31, 1989
(in thousands of dollars)

	1989	1988
Interest income		
Loans receivable	389,410	377,867
Short-term investments	5,581	2,132
	394,991	379,999
Interest expense		
Loans payable	410,972	452,045
Short-term notes	11,840	15,054
	422,812	467,099
Net interest expense	27,821	87,100
Provision for loan losses—Current year lending (Note 4(a))	2,203	9,044
Lease and other revenue from real estate, net of operating expenses of $5,653 (1988—$2,568)	(11,157)	(1,570)
Other income	(1,377)	(3,074)
Loss before administrative expenses	17,490	91,500
Administrative expenses (Note 10)	39,444	35,338
Loss from current year's operations	56,934	126,838
Change in estimate—Provision for loan losses (Note 4(b))	(22,372)	385,000
Loss for the year	34,562	511,838
Deficit at beginning of the year	854,962	343,124
Deficit at end of the year	889,524	854,962

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN CASH POSITION
FOR THE YEAR ENDED MARCH 31, 1989
(in thousands of dollars)

	1989	1988
Operating activities		
Loss for the year	(34,562)	(511,838)
Items not involving cash		
Net provision for loan losses	(20,169)	394,044
Government compensation for loan losses		15,000
Change in accrued interest receivable	36,159	(3,150)
Change in accrued interest payable	(14,736)	1,676
Amortization of debt discount and issue expenses	5,148	5,351
Depreciation and other	(3,012)	3,448
Cash provided by (used in) operating activities	(31,172)	(95,469)
Investing activities		
Loans to farmers	(107,958)	(240,626)
Loans receivable repaid	313,258	328,360
Proceeds from disposal of real estate	78,551	29,231
Additions to fixed assets	(1,546)	(1,381)
Cash provided by (used in) investing activities	282,305	115,584
Financing activities		
Loans from Canada	130,350	345,600
Loans repaid to Canada	(246,896)	(345,600)
Change in short-term notes	(112,674)	(89,628)
Cash provided by (used in) financing activities	(229,220)	(89,628)
Increase (decrease) in cash and short-term investments	21,913	(69,513)
Cash and short-term investments at beginning of the year	18,981	88,494
Cash and short-term investments at end of the year	40,894	18,981

The accompanying notes are an integral part of the financial statements.

FARM CREDIT CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989

1. The Corporation

(a) Authority and objectives

Farm Credit Corporation ("the Corporation") was established in 1959 by the Farm Credit Act as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedule III to the Financial Administration Act. The Corporation makes and administers farm loans under the authority of the Farm Credit Act and the Farm Syndicates Credit Act, and administers programs as requested by the Government of Canada ("the government").

The Corporation's role, as clarified in the Corporate Plan approved in 1988, is to provide mortgage credit and complementary financial services to Canadian farmers on a break-even basis and, when called upon by the government, to deliver specific government programs on a cost-recovery basis.

(b) Recovery plan

During the year, the government approved a recovery plan for the Corporation. The plan covers a four-year period ending March 31, 1992. It provides, among other things, for the financial restructuring of the Corporation and establishes operating policies and management guidelines within which the Corporation is to operate. As part of the first phase of recovery, the plan provides for the conversion to contributed capital of $400 million of loans payable to Canada.

2. Significant accounting policies

(a) Allowance for loan losses

The allowance for loan losses represents management's estimate of probable losses on the loans outstanding at the end of the year. The allowance has a specific component which is based on the review of outstanding undersecured loans and a general component, which is prudential in nature, to provide for loan losses which have not yet been specifically identified.

The allowance is based on a periodic evaluation of the loan portfolio in which numerous factors are considered, including future land values, commodity prices, federal and provincial governments' programs, and climatic conditions. Management has estimated the effect of these risks and uncertainties when determining the allowance for loan losses.

The government has agreed to reimburse the Corporation for concessions it will make to farmers over the next two years as a result of its participation in the Farm Debt Review Board process. The type of concessions to be made through the process, and the extent to which they will reduce the Corporation's loan losses, are not presently known. They are, therefore, not included in establishing the allowance for loan losses.

Actual loan losses, write-downs of acquired real estate, and losses on the sale of real estate are charged to the allowance while recoveries are credited to the allowance. Adjustments of the allowance to the level regarded by management as being appropriate are applied to operations.

(b) Revenue recognition

Interest income is recorded on the accrual basis until such time as management determines that a loan should be classified as non-accrual. A loan is classified as non-accrual when principal or interest is six months past due unless the loan is well secured, or when circumstances indicate doubt as to the ultimate collectibility of principal or interest. When a loan is classified as non-accrual, uncollected interest recognized in the year is reversed against interest income and, where necessary, uncollected interest recognized in previous years is provided for in the allowance for loan losses.

Interest payments received on non-accrual loans are recorded as interest income on a cash basis, where it has been determined that the loan does not require a specific provision for loss; otherwise, they are credited to principal.

Non-accrual loans may return to accrual status when, in management's opinion, the ultimate collection of principal and interest is reasonably assured.

Loan fees and charges are recorded as other income when earned.

(c) Real estate acquired in settlement of loans

Real estate is recorded at the lower of the amount of the loan outstanding or the estimated net realizable value at the time of acquisition. Subsequent declines in estimated net realizable value are recorded in the year in which they occur.

(d) Farm debt review process

Amounts received on behalf of farmers for concessions granted by the Corporation under the farm debt review process are applied as if they had been received directly from the farmers.

(e) Fixed assets

Fixed assets are recorded at cost less accumulated depreciation or amortization. Depreciation and amortization are provided over the estimated useful lives of the fixed assets according to the following methods and rates:

	Methods	Rates
Equipment and furniture	Declining balance	20%
Computer equipment and software	Straight-line	20%
Leasehold improvements	Straight-line	Lease term plus the first renewal option

(f) Debt discount and issue expenses

Debt discount and issue expenses are amortized on a straight-line basis over the life of the debt and included in interest expense on loans payable.

(g) Translation of foreign currencies

Loans and related interest payable in foreign currencies are hedged by currency conversion agreements and are translated into Canadian dollars at the rates provided therein. The differences between the ultimate amounts payable at the contracted rates and the cash proceeds of the debt issues are included with debt discount and issue expenses. These amounts are amortized on a straight-line basis and are charged to interest expense over the lives of the obligations.

FARM CREDIT CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989—*Continued*

(h) Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contributions to the plan are limited to matching the employees' contributions for current service. These contributions are expensed during the year in which the services are rendered and represent the total pension obligations of the Corporation.

(i) Employee termination benefits

On termination of employment, employees are entitled to benefits provided for under their terms of employment. The liability for these benefits is recorded as the benefits accrue to the employees.

(j) Income taxes

The Corporation follows the tax allocation method of providing for income taxes. The cumulative differences between tax calculated on such a basis and taxes currently payable are essentially timing differences and result in deferred income taxes. The Corporation has deferred tax benefits which have not been recorded and will only be recognized when there is virtual certainty that they will be realized.

3. Loans

	Annual interest rate	1989	1988
	%	(in thousands of dollars)	
Loans to farmers, secured by mortgages	5-16 3/4	4,137,681	4,655,314
Loans to farm syndicates, secured by notes	6 1/4-17 1/2	4,858	5,951
Loans receivable from real estate sales, secured by agreements for sale or mortgages	5-15 3/4	39,812	40,365
		4,182,351	4,701,630
Less: allowance for loan losses		350,000	500,000
		3,832,351	4,201,630
Amounts due by fiscal year based on loan terms are as follows:			
Principal past due		55,550	63,533
1989			147,069
1990		425,767	492,665
1991		252,293	267,072
1992		294,685	306,063
1993		290,456	296,655
1994		456,964	513,806
1995 and beyond		2,172,267	2,282,115
		3,947,982	4,368,978
Accrued interest—Current		73,702	112,176
—Arrears		160,667	220,476
		4,182,351	4,701,630

At March 31, 1989, the Corporation had 7,040 loans representing $808 million of loans receivable classified as non-accrual (1988—7,950 representing $1,057 million). During the year, interest not recognized on non-accrual loans amounted to $75 million (1988—$131 million). The accumulated interest not recognized on non-accrual loans outstanding at March 31, 1989, amounted to $171 million (1988—$191 million).

Prepayments of principal from farmers of $153 million (1988—$158 million) were received during the year.

4. Allowance for loan losses

(a) A summary of the changes in the allowance for loan losses follows:

	1989	1988
	(in thousands of dollars)	
Balance at beginning of the year	500,000	219,000
Write-offs, net of recoveries	(129,831)	(113,044)
Provision for loan losses—Current year lending	2,203	9,044
Change in estimate—Provision for loan losses	(22,372)	385,000
Balance at end of the year	350,000	500,000

(b) Change in estimate—Provision for loan losses

Future agricultural and economic conditions are not predictable with certainty and therefore, actual loan losses may vary from management's estimate. As a result of changing conditions, further experience with problem accounts and improved information on the quality of loans in its portfolio, the Corporation decided that a portion of the amount previously provided in recognition of some of the risks and uncertainties was no longer required. Accordingly, the Corporation reduced the allowance for loan losses at year-end to an even $350 million by applying a change in estimate of $22 million to operations.

5. Real estate acquired in settlement of loans

Real estate represents farm property acquired in the process of administering loans receivable and must be disposed of within five years of acquisition or such further period as the Governor in Council may prescribe.

The Corporation has 1,485 properties (1988—911) which represent current saleable properties and leased properties which are subject to holding periods of up to four years.

6. Fixed assets

The analysis is as follows:

	1989	1988
	(in thousands of dollars)	
Equipment and furniture	3,176	2,673
Computer equipment and software	3,790	3,042
Leasehold improvements	1,333	1,170
	8,299	6,885
Less: accumulated depreciation and amortization	4,506	3,404
	3,793	3,481

Depreciation and amortization expense for the year ended March 31, 1989, was $1,234 thousand (1988—$857 thousand).

FARM CREDIT CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989—*Continued*

7. Loans payable

	Annual interest rate	1989	1988
	%	(in thousands of dollars)	
Loans from Canada, secured by notes			
Farm Credit Act	6-12	3,182,998	3,298,476
Farm Syndicates Credit Act	9 1/4-11	4,962	6,030
Loans from capital markets, secured by notes			
Farm Credit Act	9-12 1/4	1,328,156	1,328,156
		4,516,116	4,632,662
Accrued interest		108,169	122,905
		4,624,285	4,755,567
Amounts due by fiscal year are as follows:			
1989			220,787
1990		1,030,087	641,371
1991		470,392	463,864
1992		416,218	435,554
1993		640,663	660,983
1994		528,868	455,513
1995 and beyond		1,429,888	1,754,590
		4,516,116	4,632,662
Accrued interest		108,169	122,905
		4,624,285	4,755,567

The government decided that no principal or interest would be payable on loans from Canada of $400 million from July 1, 1988 to the date of total redemption by conversion to contributed capital. This amount is shown maturing in 1990. As a result, the total amount of interest expense not incurred in the year amounted to $35 million.

8. Limits on borrowing

The Farm Credit Act limits the aggregate amount outstanding of the principal borrowings by the Corporation pursuant to the Act to twenty-five times the contributed capital of the Corporation. At March 31, 1989, the Corporation's outstanding borrowings under this Act, comprising short-term notes of $66 million and loans payable of $4,502 million, were 20.95 times the contributed capital of $218 million (1988—21.97 times).

The Farm Syndicates Credit Act limits the loans from Canada pursuant to the Act to $25 million. At March 31, 1989, the Corporation's loans from Canada under this Act were $5 million (1988—$6 million).

The Corporation continues to be restricted to borrowing its short and long-term funding requirements from the government's Consolidated Revenue Fund. These borrowings require the approvals of both the Governor in Council and the Minister of Finance.

9. Contributed capital

The contributed capital of the Corporation represents the amount received from Canada under section 12 of the Farm Credit Act. At March 31, 1989, the statutory limit on this amount was $225 million (1988—$225 million).

10. Administrative expenses

The analysis is as follows:

	1989	1988
	(in thousands of dollars)	
Salaries and employee benefits	27,227	25,423
Premises and equipment, including depreciation	4,717	4,035
Travel and relocation	3,093	2,505
Other	4,407	3,375
	39,444	35,338

11. Income taxes

Timing differences of approximately $525 million are available to the Corporation as at March 31, 1989. These have not been recognized in the accounts since they will not be used in the foreseeable future. They result primarily from differences between the provision for loan losses charged to operations and the amount claimed for income tax purposes.

In addition, the loss carry-forward for income tax purposes which has not been recognized in the financial statements amounts to $334 million. Of this amount, $8 million will expire on March 31, 1993, $14 million on March 31, 1994, $118 million on March 31, 1995, and $194 million on March 31, 1996.

12. Commitments to farmers

As at March 31, 1989, loans to farmers approved but not disbursed amounted to $23 million (1988—$23 million). These loans were approved at rates from 11.75% to 13.25%. It is expected that the majority of these loans will be disbursed within the six-month period ending September 30, 1989, from funds to be borrowed by the Corporation at prevailing rates of interest at the time of borrowing.

13. Operating leases

Future minimum payments by fiscal year on operating leases for premises, with initial non-cancellable lease terms in excess of one year, are as follows:

	(in thousands of dollars)
1990	2,094
1991	1,946
1992	1,564
1993	1,247
1994	802
1995 and beyond	967
	8,620

These leases generally provide for the payment by the Corporation of real estate taxes and operating expenses in excess of the amounts established at the commencement of the lease term.

FARM CREDIT CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989—*Concluded*

14. Government programs

(a) Commodity-based Loan Program

In its budget announcement, February 26, 1986, the government directed the Corporation to establish the Commodity-based Loan Program for existing clients of the Corporation who were experiencing financial difficulty and who met certain eligibility criteria. The program provides for reduced interest rates with loan principal indexed to changes in commodity prices. The resulting net cash flow deficiencies, if any, are made up by the government.

During the year, Commodity-based Loans in the amount of $29 million (1988—$168 million) were disbursed, of which $3 million (1988—$10 million) was used to pay arrears on the Corporation's previous loans. In addition, $16 million was received from the government in respect of cash flow deficiencies (1988—$10 million).

(b) Farm debt review process

Subject to annual parliamentary appropriation, the Minister of Agriculture has been authorized to make contributions to farmers, payable to the Corporation. These payments are based on concessions that the Corporation has granted to farmers under arrangements made pursuant to the Farm Debt Review Act. The Corporation is reimbursed at the time farmers realize the benefits of the concessions, which may be over a period as long as five years. These concessions cease if the farmers fail to meet their commitments, or the Corporation proceeds with recovery action.

The government has allocated up to $270 million for concessions to be granted over the period ending March 31, 1991. Since the inception of the farm debt review process, the Corporation has offered $88 million in concessions and received $37 million from the government of which $29 million was received in the current year (1988—$8 million). The committed difference of $51 million will be due and received over the next five years as farmers meet their commitments and thereby realize the benefits of the concessions.

15. Subsequent events

(a) Contributed capital

Subsequent to the year-end, Parliament authorized the increase of the contributed capital limit from $225 million to $625 million. This will enable the conversion by the government of loans payable to Canada in the amount of $400 million to contributed capital in accordance with the Recovery Plan.

The conversion will eliminate the Corporation's loss carry-forward for income tax purposes and reduce available timing differences by $8 million.

(b) Commodity-based Loan Program

In the Budget announced on April 27, 1989, the government cancelled future lending under the Commodity-based Loan Program.

16. Comparative figures

Certain 1988 comparative figures have been reclassified to reflect the presentation adopted in 1989.

SUMMARY PAGE

FEDERAL BUSINESS DEVELOPMENT BANK

MANDATE

To promote and assist in the establishment and development of business enterprises in Canada by providing financial assistance, management counselling, management training, information and advice, giving particular attention to the needs of small business enterprises.

BACKGROUND

Since 1974, the Bank has provided financial assistance to Canadian firms by acting as a supplementary lender and a source of equity financing. It also provides financial planning, counselling and training, information and other management services to small and medium-sized business.

CORPORATION DATA

HEAD OFFICE	800 Victoria Square Box 335 Stock Exchange Tower Station Montreal, Quebec H4Z 1L4
STATUS	— Schedule III, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Harvie Andre, P.C., M.P.
DEPARTMENT	Industry, Science and Technology
YEAR AND MEANS OF INCORPORATION	1974; by the *Federal Business Development Bank Act* (R.S.C. 1985, c. F-6); (successor to the Industrial Development Bank, established 1944).
CHIEF EXECUTIVE OFFICER	Guy A. Lavigueur
CHAIRMAN	William J. McAleer, Q.C.
AUDITOR	Price Waterhouse

FINANCIAL SUMMARY ($ million) Financial years ending March 31.

	1989	**1988** (restated)	**1987**	**1986**
At the end of the period				
Total Assets	2,541	2,297	1,920	1,595
Obligations to the private sector	2,065	1,916	1,563	1,184
Obligations to Canada	nil	nil	51	144
Equity of Canada	345	299	242	207
Cash from Canada in the period				
— budgetary	63	77	55	26
— non-budgetary	nil	nil	nil	nil

FEDERAL BUSINESS DEVELOPMENT BANK

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements were prepared by the management of the Federal Business Development Bank in accordance with accounting principles generally accepted in Canada, which were consistently applied. The financial data contained in other sections of this annual report is consistent with the content of the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements and for the accounting systems from which they are derived, management maintains a system of internal controls designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal controls is augmented by audit and inspection staff who conduct periodic reviews of different aspects of the Bank's operations. In addition, the Vice-President, Internal Audit and the Independent Auditor have full and free access to the Audit Committee of the Bank's Board of Directors which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting.

These financial statements have been examined and reported upon by the Bank's independent auditor, Mr. Raymond J. Morcel, F.C.A. of Price Waterhouse, Chartered Accountants.

Guy A. Lavigueur
President

AUDITOR'S REPORT

TO THE HONOURABLE MINISTER OF REGIONAL INDUSTRIAL EXPANSION AND MINISTER OF STATE FOR SCIENCE AND TECHNOLOGY

TO THE HONOURABLE MINISTER OF STATE SMALL BUSINESSES AND TOURISM

I have examined the balance sheet of the Federal Business Development Bank as at March 31, 1989 and the statements of operations, deficit and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Bank as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, I have examined the transactions that came to my notice in the course of the above mentioned examination of the financial statements of the Federal Business Development Bank for the year ended March 31, 1989, to determine whether they were in accordance with Part X of the Financial Administration Act and regulations, the Federal Business Development Bank Act and the by-laws of the Bank and with the directive given to the Bank as disclosed in Note 5. My examination of these transactions was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances. In my opinion, these transactions were, in all significant respects, in compliance with the authorities specified.

Raymond J. Morcel, F.C.A.
of Price Waterhouse

Montreal, June 7, 1989

BALANCE SHEET AS AT MARCH 31
(in thousands of dollars)

ASSETS	1989	1988
Cash	3,352	2,423
Treasury bills and short-term investments	97,708	91,072
	101,060	93,495
Loans	2,439,929	2,194,017
Venture capital investments (Note 3)	51,721	53,462
Interest due and accrued	11,236	10,198
	2,502,886	2,257,677
Less: accumulated provision for losses (Note 4)	174,411	137,870
	2,328,475	2,119,807
Long-term investment (Note 5)	79,000	56,000
Fixed assets, less accumulated depreciation	3,440	1,670
Unamortized debt issue expenses	14,726	13,016
Other assets	14,224	13,350
	2,540,925	2,297,338

LIABILITIES	1989	1988
Cheques outstanding	8,109	5,903
Short-term notes	388,216	516,405
Accrued interest on short and long-term notes	78,773	55,028
Other liabilities	22,769	18,269
	497,867	595,605
Notes payable (Note 6)	1,677,133	1,399,531
Unamortized premium (net) on long-term notes	20,809	3,155
	2,195,809	1,998,291
SHAREHOLDER'S EQUITY		
Capital of the Corporation		
Capital paid in by Canada (Notes 7 and 12)	547,600	512,600
Deficit	(225,484)	(236,553)
	322,116	276,047
Appropriation paid in by Canada (Note 8)	23,000	23,000
	345,116	299,047
	2,540,925	2,297,338

Approved by the Board:

GUY A. LAVIGUEUR
Director

H. BLOOMFIELD
Director

FEDERAL BUSINESS DEVELOPMENT BANK—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31
(in thousands of dollars)

	1989	1988
Financial Services		
Interest and investment income		
Loans	301,046	260,214
Venture capital investments	15,563	6,634
	316,609	266,848
Interest expense		
Long-term notes	142,918	121,945
Short-term notes (net)	42,787	44,643
	185,705	166,588
Net interest and investment income	130,904	100,260
Provision for losses on loans, guarantees and venture capital investments	53,809	34,779
Net interest and investment income after provision for losses	77,095	65,481
Non-interest expenses		
Salaries and staff benefits	40,684	36,852
Premises and equipment, including depreciation	9,448	8,763
Other expenses	15,894	13,439
	66,026	59,054
Net income (Note 13)	11,069	6,427
Net income attributable to		
Loans division	2,612	2,882
Venture capital division	8,457	3,545
Management Services (see Note 15)		
Salaries and staff benefits	21,999	19,581
Premises and equipment	3,816	4,112
Other expenses	11,238	10,497
Total expenditures	37,053	34,190
Less: revenue from CASE counselling, training seminar registration and other activities	10,044	7,991
Amount recovered from the Department of Regional Industrial Expansion Vote 40 (Vote 50 in 1988)	27,009	26,199
Net expenditures were incurred as follows:		
Management counselling	9,318	9,478
Management training	5,579	4,737
Information and advice	12,112	11,984
	27,009	26,199

STATEMENT OF DEFICIT
FOR THE YEAR ENDED MARCH 31
(in thousands of dollars)

	1989	1988
Deficit, beginning of year	(236,553)	(242,980)
Net income	11,069	6,427
Deficit, end of year	(225,484)	(236,553)

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31
(in thousands of dollars)

	1989	1988
Operations		
Net income	11,069	6,427
Items not requiring an outlay of cash		
Provision for losses	53,809	34,779
Depreciation	1,419	1,012
Net amortization of premiums, discounts and debt issue expenses	2,312	3,191
Net change in accrued interest	22,707	11,422
Other	2,805	5,588
	94,121	62,419
Disbursements to borrowers and investees	(717,003)	(716,648)
Purchase of long-term investment	(23,000)	(28,000)
Repayments by borrowers and investees	453,196	408,308
Cash used in operations	(192,686)	(273,921)
Treasury		
Issue of long-term notes	519,148	539,413
Repayment of long-term notes	(241,546)	(323,600)
Net change in short-term notes	(128,189)	86,179
Capital paid in by Canada	35,000	28,000
Appropriation paid in by Canada		23,000
Net premiums, discounts and debt issue expenses	13,632	(2,660)
	198,045	350,332
Increase in cash, Treasury bills and short-term investments, net of cheques outstanding	5,359	76,411
Cash, Treasury bills and short-term investments, net of cheques outstanding		
Beginning of year	87,592	11,181
End of year	92,951	87,592

FEDERAL BUSINESS DEVELOPMENT BANK—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989

1. Objectives and operations of the Corporation

Federal Business Development Bank is a Crown corporation wholly-owned by the Government of Canada, which was established December 20, 1974, by the Federal Business Development Bank Act, and commenced operations on October 2, 1975, as the successor to the Industrial Development Bank.

The objectives of the Bank, as stated in the Act, are to promote and assist in the establishment of business enterprises in Canada by providing financial assistance, management counselling, management training, information and advice, giving particular consideration to the needs of small business enterprises.

The Bank's lending and venture capital operations are carried out by Financial Services. Management Services includes counselling, training and information services. A statement of operations is shown for Management Services since it is funded separately by Parliamentary appropriation.

Federal Business Development Bank is for all purposes of its Act an agent of the Government of Canada, and, as such, all liabilities of the Corporation are direct obligations of the Government of Canada.

The Bank is exempt from income taxes.

2. Significant accounting policies

Loans and venture capital investments

Loans and venture capital investments are recorded at principal amounts.

Provision for losses on loans, guarantees and venture capital investments

Provisions are established for specifically identified probable losses on loans, guarantees and venture capital investments, as well as for anticipated but unidentified losses. The specific provision is established on an account by account basis whereas the general provision is based on historical experience and is intended to cover losses on loans, guarantees and venture capital investments which have not yet been specifically identified.

Revenue recognition

Interest on loans is recorded as income on an accrual basis except that interest is not accrued on loans where management believes that the interest will not be recovered. Dividends, interest and capital gains on venture capital investments are recorded as income when received.

Fixed assets and depreciation

Fixed assets are recorded at cost.

Depreciation is charged against income using the straight-line or diminishing balance methods in amounts sufficient to amortize the cost of fixed assets over their estimated useful lives.

With respect to the Management Services function of the Bank, all capital expenditures are recovered from the Department of Regional Industrial Expansion and hence are not capitalized.

Premiums, discounts and expenses on long-term debt

Premiums, discounts and expenses related to the issue of the long-term debt are amortized on a straight-line basis over the term of the obligations to which they pertain and charged to interest expense.

Translation of foreign currencies

Notes payable in foreign currencies are hedged by forward exchange contracts and are translated into Canadian dollars at the rates provided therein. The difference between the ultimate amount payable at the contracted rate and the cash proceeds of the issue is considered to be an element of financing costs and is therefore amortized to interest expense over the life of the obligation on a straight-line basis. The unamortized portion of these amounts is included with unamortized debt issue expenses in the balance sheet. The related interest payable on these note issues is also hedged by forward exchange contracts and is translated into Canadian dollars at such contract rates.

3. Venture capital investments

	1989	1988
	(in thousands of dollars)	
Shares	34,049	35,715
Shareholder advances	1,299	1,508
Participating debentures	14,567	14,764
Convertible debentures	1,806	1,475
	51,721	53,462

4. Accumulated provision for losses

	1989	1988
	(in thousands of dollars)	
Accumulated provision, beginning of year	137,870	125,565
Amounts written off during the year	(19,636)	(25,878)
Recovery of amounts previously written off	2,368	3,404
	120,602	103,091
Additional provision required for the year	53,809	34,779
Accumulated provision, end of year	174,411	137,870

5. Long-term investment

Pursuant to a directive dated October 16, 1986, given by the Government of Canada to the Federal Business Development Bank under Section 89 of the Financial Administration Act, the Bank was directed to purchase from Cominco Ltd. 790,000 series "E" preferred shares for an amount of $79 million. The Government of Canada provided funding in three tranches for this transaction which was completed on April 5, 1988.

Cominco Ltd. is a Canadian mining producer of zinc and lead. This investment forms part of a $260 million programme of modernization relating to lead smelting operations in Trail, B.C. A twenty-year agreement between the Government of Canada and Cominco Ltd. provides for a sharing in the risks of the project. The redemption of the Bank's investment and payment of dividends thereon are tied to the success of the project as determined by a profitability index which is related to the performance of lead and silver prices over the life of the agreement.

This investment is carried at cost and any dividends will be recorded when received.

FEDERAL BUSINESS DEVELOPMENT BANK—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989—*Continued*

6. Notes payable

Maturities by fiscal year were as follows:

Rate %	1990	1991	1992	1993	1994	1995-98	Total
	(in thousands of dollars)						
7	40,630						40,630
8 1/4-9 7/8	245,013	165,492	205,000	149,975	75,000	50,000	890,480
10-11 5/8	72,376	80,753	235,885	9,665	56,672	27,707	483,058
12-13 7/8	75,000	100,500	46,906	7,446			229,852
14 1/4-15 3/8		20,000	13,113				33,113
	433,019	366,745	500,904	167,086	131,672	77,707	1,677,133

The above includes notes payable of United States $131.5 million (Cdn $181.3 million), Yen 23.6 billion (Cdn $171.6 million), Australian $64.2 million (Cdn $66.4 million) and New Zealand $50 million (Cdn 39.7 million). These notes are hedged by forward exchange contracts (See Note 2).

The above table includes $372.4 million of notes payable which have been the subject of interest rate swap agreements with other financial institutions. Under these agreements, fixed interest rate commitments ranging between 8 3/4% and 15 3/8% have been converted to floating interest rates which resulted in effective interest rates for fiscal 1989 which ranged between 9% and 12%. These borrowings fund a portion of the Bank's floating interest rate loan portfolio.

7. Capital paid in by Canada

	1989	1988
	(in thousands of dollars)	
Capital, beginning of year	512,600	484,600
Cash paid in	35,000	28,000
Capital, end of year	547,600	512,600

8. Appropriation paid in by Canada

According to legal advice provided to the Minister concerning the provisions of the Federal Business Development Bank Act, funding for Financial Services activities may be provided to the Corporation by way of appropriation for the purposes of Section 20 of the Act. Amounts received are disclosed in the balance sheet under Shareholder's Equity along with the capital of the Corporation as defined by Section 28 of the Act.

	1989	1988
	(in thousands of dollars)	
Appropriation, beginning of year	23,000	
Cash paid in		23,000
Appropriation, end of year	23,000	23,000

9. Contingent liabilities and commitments

The Bank is contingently liable as guarantor of loans aggregating $3.2 million.

The undisbursed amount as at March 31, 1989, on loans and venture capital investments authorized aggregated $205.3 million (1988—$174 million).

10. Lease commitments

Future minimum lease commitments under operating leases related to the rental of Bank premises are as follows:

	(in thousands of dollars)
1990	6,086
1991	5,391
1992	5,058
1993	4,460
1994	3,840
Thereafter	10,054
	34,889

11. Pension plan

The Bank maintains a defined benefit pension plan for eligible employees. Based on the latest actuarial report prepared as of December 31, 1988, the present value of the accrued pension benefits amounted to $158.1 million and the market related value of the net assets was $169.5 million.

12. Statutory limitations on operations

The Minister of Finance may, with the approval of the Governor in Council, authorize capital payments to the Bank not in excess of an aggregate amount determined by the application of Section 28 of the Federal Business Development Bank Act. Under current ministerial interpretation of the provisions of this Section, the Bank is presently authorized to receive capital payments to the extent that total capital paid in by Canada under this section does not exceed $554 million. The total of direct and contingent liabilities of the Bank is limited to a maximum of 12 times the amounts of its capital and deficit (or up to 15 times with the approval of the Governor in Council) and may not exceed $3.2 billion.

13. Financial services

The statement of operations for Financial Services is comprised of the results of the Loans Division and the Venture Capital Division which are segregated below. Within the capital of the Bank as at March 31, 1988, was an amount of $35.6 million provided by the Government of Canada to fund the venture capital investment portfolio. A further $10 million was received for the same purpose for the fiscal year ended March 31, 1989.

FEDERAL BUSINESS DEVELOPMENT BANK—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989—*Concluded*

	1989			1988		
	Loans	Venture capital	Total	Loans	Venture capital	Total
	(in thousands of dollars)					
Interest and investment income	301,046	15,563	316,609	260,214	6,634	266,848
Interest expense	185,705		185,705	166,588		166,588
Net interest and investment income	115,341	15,563	130,904	93,626	6,634	100,260
Provision for losses	49,917	3,892	53,809	34,306	473	34,779
Net interest and investment income after provision for losses	65,424	11,671	77,095	59,320	6,161	65,481
Non-interest expenses	62,812	3,214	66,026	56,438	2,616	59,054
Net income	2,612	8,457	11,069	2,882	3,545	6,427

14. Comparative financial data

Certain amounts pertaining to the fiscal year ended March 31, 1988, have been reclassified to conform with the presentation adopted for the fiscal year ended March 31, 1989.

15. Subsequent event

On April 27, 1989, the Government of Canada announced in its 1989 Budget a reduction of $13 million in the yearly appropriation for the Bank's Management Services. An amount of $27.6 million had originally been budgeted by the Bank for the 1989-90 fiscal year. This reduction is to be phased in over the course of the year in order to allow the Bank to adjust its programs and cost recovery.

SUMMARY PAGE

FRESHWATER FISH MARKETING CORPORATION

MANDATE

The objectives of the corporation are (a) to market fish in an orderly manner; (b) to increase returns to fishers; and (c) promote international markets for, and increase inter-provincial and export trade in, fish.

BACKGROUND

The Corporation was created to improve the economic situation of the commercial fishery in Western Canada. The corporation's Act requires it to purchase and market all of the legally caught freshwater fish from the region it serves and to operate on a self-sustaining basis. Its products are sold in direct competition with producers from the Great Lakes area as well as competing against other fish and seafood in an open marketplace. For the year ended April 30, 1989 total sales were $55.0 million (1988 — $58.1 million) and the total available for fishers was $37.1 million (1988 — $42.7 million).

CORPORATION DATA

HEAD OFFICE	1199 Plessis Road Winnipeg, Manitoba R2C 3L4
STATUS	— Schedule III, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Thomas E. Siddon, P.C., M.P.
DEPARTMENT	Fisheries and Oceans
YEAR AND MEANS OF INCORPORATION	1969; by the *Freshwater Fish Marketing Act (*R.S.C. 1985, c. F-13).
CHIEF EXECUTIVE OFFICER AND ACTING CHAIRMAN	Tom Dunn
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) Financial years ending April 30.

	1989	**1988**	**1987**	**1986**
At the end of the period				
Total Assets	28.6	23.6	18.9	25.5
Obligations to the private sector	3.1	3.2	2.4	1.9
Obligations to Canada	14.0	2.0	0.9	14.7
Equity of Canada	nil	nil	nil	nil
Cash from Canada in the period				
— budgetary	nil	nil	nil	nil
— non-budgetary	12.0	1.1	(13.8)	2.2

FRESHWATER FISH MARKETING CORPORATION

AUDITOR'S REPORT

TO THE MINISTER OF FISHERIES AND OCEANS

I have examined the balance sheet of the Freshwater Fish Marketing Corporation as at April 30, 1989 and the statements of income and retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at April 30, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Freshwater Fish Marketing Act and by-laws of the Corporation.

Raymond Dubois, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
July 25, 1989

BALANCE SHEET AS AT APRIL 30, 1989

ASSETS	1989	1988
	$	$
Current		
Accounts receivable		
Trade	6,226,335	5,868,334
Contributions (Note 3)	202,683	30,000
Other	1,062,400	731,832
Inventory		
Finished fish products	11,416,508	8,938,292
Packaging material and parts	1,493,266	1,188,414
Prepaid expenses	172,155	67,740
	20,573,347	16,824,612
Property, plant and equipment (Note 4)	8,002,263	6,785,476
	28,575,610	23,610,088

LIABILITIES	1989	1988
	$	$
Current		
Bank indebtedness	103,278	529,447
Accounts payable	2,873,712	2,646,945
Accrued interest payable	616,588	20,838
Working capital loans from Canada (Note 5)	14,000,000	2,000,000
Provision for final payments to fishermen	7,958,806	15,760,422
	25,552,384	20,957,652
EQUITY		
Retained earnings	3,023,226	2,652,436
	28,575,610	23,610,088

Approved by the Board:

R. E. ENGLAND
Director

D. M. GAUVIN
Director

FRESHWATER FISH MARKETING CORPORATION—*Continued*

STATEMENT OF INCOME AND RETAINED EARNINGS FOR THE YEAR ENDED APRIL 30, 1989

	1989	1988
	$	$
Sales		
Domestic	9,016,553	7,253,139
Export	46,078,880	50,851,717
	55,095,433	58,104,856
Expenses		
Cost of sales	42,821,600	38,551,009
Interest (Note 6)	735,673	325,326
Salaries and employee benefits	1,087,787	996,199
Depreciation and amortization	1,089,363	1,160,502
Bad debts	182,917	118,534
Other	848,497	766,364
	46,765,837	41,917,934
Income before provision for final payments to fishermen	8,329,596	16,186,922
Provision for final payments to fishermen	7,958,806	15,760,422
Net income for the year	370,790	426,500
Retained earnings at beginning of the year	2,652,436	2,225,936
Retained earnings at end of the year	3,023,226	2,652,436

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED APRIL 30, 1989

	1989	1988
	$	$
Cash provided by (used for)		
Operating activities		
Income before provision for final payments to fishermen	8,329,596	16,186,922
Add (deduct)		
Items not affecting working capital		
Depreciation and amortization	1,089,363	1,160,502
Gain on sale of fixed assets	(22,308)	(48,302)
Net changes in non-cash working capital balances relating to operations	(2,742,930)	(3,959,470)
Cash provided by operations	6,653,721	13,339,652
Investing activities		
Additions to property, plant and equipment	(2,677,917)	(1,379,831)
Proceeds on sale of property, plant equipment	52,604	160,125
Cash applied to investing activities	(2,625,313)	(1,219,706)
Financing activities		
Contributions for plant and equipment	175,727	78,834
Cash provided by financing activities	175,727	78,834
Final payments to fishermen	(15,777,966)	(13,669,038)
Increase (decrease) in cash during the year	(11,573,831)	(1,470,258)
Cash and cash equivalents beginning of year	(2,529,447)	(1,059,189)
Cash and cash equivalents end of year	(14,103,278)	(2,529,447)
Cash and cash equivalents are composed of		
Bank indebtedness	(103,278)	(529,447)
Working capital loans from Canada	(14,000,000)	(2,000,000)
	(14,103,278)	(2,529,447)

NOTES TO FINANCIAL STATEMENTS APRIL 30, 1989

1. Objectives and operations

The Corporation was established by the Freshwater Fish Marketing Act (the Act) in 1969, as a corporation without share capital, for the purpose of marketing and trading in fish, fish products and fish by-products in and out of Canada. The Corporation is an agent Crown corporation named in Schedule III, Part I of the Financial Administration Act and is required to conduct its operations on a self-sustaining basis. Total loans outstanding from Canada and from banks may not exceed $30 million.

The Corporation has the exclusive right to market the products of the commercial fishery in the provinces participating in the program in inter-provincial and export trade. Participation of the provinces of Manitoba, Saskatchewan, Alberta and Ontario and the Northwest Territories was established by agreement with the Government of Canada.

2. Significant accounting policies

Inventories

Finished fish products are valued at the lower of cost and net realizable value. Packaging material and parts are valued at the lower of cost and replacement cost.

Depreciation and amortization

Depreciation is based on the estimated useful lives of the assets using the following methods and annual rates:

Buildings	—Lake stations	Straight-line	10%
	—Plants	Straight-line	2 1/2 %
Equipment	—Machinery and office equipment	Declining balance	10-25%
	—Automotive	Declining balance	30%
Fresh fish delivery tubs		Straight-line	10%
Vessels		Straight-line	6 2/3%

Leasehold improvements are amortized on a straight-line basis over the term of the lease. Lease terms vary in length up to 20 years.

Payments to fishermen

The Corporation purchases fish at initial prices established by the Board of Directors and the cost of such purchases is included in the cost of sales. A guide used in the determination of the initial price is 80% of the projected total payments to fishermen (initial plus final), based upon forecasts prepared by the Corporation. Final payments, if any, to fishermen are determined by the Board after the end of the year, based on the results of operations for the year. The final payments are made in respect of products purchased during the year and therefore are charged to operations of the current year.

Foreign currency translation

Accounts receivable and payable denominated in foreign currency are translated into Canadian dollars at the year-end exchange rate. Transactions in foreign currency during the year are translated at the rate in effect at the time of the transaction. Foreign exchange gains and losses are included in interest expense.

Contributions

Contributions earned in respect of property, plant and equipment are credited to the cost of the assets; those received in respect of job creation programs are credited against salaries and wages expense.

FRESHWATER FISH MARKETING CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
APRIL 30, 1989—*Concluded*

3. Contributions receivable

	1989	1988
	$	$
Government of Canada		
Department of Regional Industrial Expansion	36,017	
Special ARDA	134,611	
Revenue Canada—Investment Tax Credit	32,055	
Government of the Northwest Territories		
Agricultural and Regional Development Act		30,000
	202,683	30,000

Total contributions from the Government of Canada and the Government of the Northwest Territories towards the cost of property, plant and equipment during the year were $348,410 (1988—$47,793).

4. Property, plant and equipment

	1989			1988
	Cost	Accumulated depreciation and amortization	Net	Net
	$	$	$	$
Land	263,065		263,065	263,065
Buildings	5,613,034	2,608,076	3,004,958	3,167,931
Equipment	8,439,646	5,585,829	2,853,817	2,752,261
Fresh fish delivery tubs	1,998,945	1,546,998	451,947	500,683
Vessels	54,698	6,788	47,910	56,252
Leasehold improvements	422,499	387,008	35,491	45,284
Construction in progress	1,345,075		1,345,075	
	18,136,962	10,134,699	8,002,263	6,785,476

5. Working capital loans from Canada

These loans are made under Section 16(1) of the Act and bear interest at 10.045% (1988—8.474%). They are secured by promissory notes.

6. Interest expense

	1989	1988
	$	$
Interest on working capital loans from Canada	786,777	226,418
Losses on foreign exchange	38,610	234,868
Interest income	(89,714)	(135,960)
	735,673	325,326

7. Income taxes

The Corporation is eligible to deduct for tax purposes a portion of its eligible capital cost allowance, and accordingly has no taxable income for the year. At April 30, 1989, the excess of undepreciated capital cost over net book value of property, plant and equipment amounted to $3,037,175 (1988—$3,407,965) which can be used to reduce future years' taxable income.

8. Remuneration to foreign agents

During the year, the Corporation paid an aggregate amount of $745,420 (1988—$966,708) to the following foreign sales agents: Frohman International, Juhl Brokerage Incorporation, Associated Marketing Services Inc., R.M. Sloan Co., G&G Food Sales Company, Sahakian Salm & Gordon, Benolken Brokerage Company, X. Sea. Lnt International Corp.—U.S.; I. LeGrand H. Malo et Cie—France; Lejos Oy—Finland; AB.P. Jorgensen—Sweden; Rud Kanzow Gmbh & Co.—Germany.

SUMMARY PAGE

GREAT LAKES PILOTAGE AUTHORITY, LTD.

MANDATE

To establish, operate, maintain and administer in the interests of safety, an efficient pilotage service in designated Canadian waters in the Great Lakes area and in and around Ontario, and in designated waters in Manitoba, and in the St. Lawrence River, south of the St. Lambert Lock in Quebec.

BACKGROUND

Established in 1972, the Authority provides pilotage services and has the power to make regulations, subject to the approval of the Governor in Council, which establish compulsory pilotage areas; prescribe the ships/classes of ships that are subject to compulsory pilotage, the circumstances under which compulsory pilotage may be waived and pilotage tariffs; and which cover the licensing of pilots and issuance of pilotage certificates. Tariffs must be fair and reasonable and sufficient to permit the Authority to operate on a self-sustaining financial basis.

CORPORATION DATA

HEAD OFFICE	132 Second Street East P.O. Box 95 Cornwall, Ontario K6H 5R9
STATUS	— Schedule III, Part I — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Benoît Bouchard, P.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1972; pursuant to the *Pilotage Act* (R.S.C. 1985, c. P-14), incorporated under the *Canada Corporations Act* in May 1972 as a subsidiary of The St. Lawrence Seaway Authority.
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Richard G. Armstrong
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1988	1987	1986	1985
At the end of the year				
Total Assets	4.5	4.6	5.2	2.0
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	(0.9)	(2.0)	(1.0)	(5.2)
Cash from Canada for the year				
— budgetary	nil	1.0	nil	3.4
— non-budgetary	nil	nil	nil	nil

GREAT LAKES PILOTAGE AUTHORITY, LTD.

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have examined the balance sheet of the Great Lakes Pilotage Authority, Ltd. as at December 31, 1988 and the statements of operations, deficit and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Authority as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Pilotage Act and regulations, and the By-Laws of the Authority.

Raymond Dubois, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
January 27, 1989

BALANCE SHEET AS AT DECEMBER 31, 1988

ASSETS	1988	1987
	$	$
Current		
Cash and short-term deposits	3,075,465	2,984,235
Accounts receivable	1,413,709	1,618,157
	4,489,174	4,602,392
Fixed, at cost		
Buildings	63,642	63,642
Furniture and equipment	106,786	100,427
	170,428	164,069
Less: accumulated depreciation	142,275	132,757
	28,153	31,312
	4,517,327	4,633,704

LIABILITIES	1988	1987
	$	$
Current		
Accounts payable and accrued liabilities	2,377,334	2,627,230
Accrued life insurance experience loss (Note 3)	13,140	250,000
Accrued employee termination benefits	61,548	634,605
Accrued retirement incentives (Note 4)		227,500
	2,452,022	3,739,335
Long-term		
Accrued employee termination benefits	3,003,607	2,879,389
	5,455,629	6,618,724
SHAREHOLDER'S DEFICIENCY		
Capital stock		
Authorized—Unlimited		
Issued and fully paid—15 shares	1,500	1,500
Contributed capital	82,074	82,074
Deficit	(1,021,876)	(2,068,594)
	(938,302)	(1,985,020)
	4,517,327	4,633,704

Approved by the Board:

RICHARD ARMSTRONG
Director

GUY ST. MARSEILLE
Director

GREAT LAKES PILOTAGE AUTHORITY, LTD.—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1988

	1988	1987
	$	$
Revenues		
Pilotage charges	9,363,493	9,507,841
Despatching and pilot boat income	194,614	176,352
Interest and other income	189,229	166,210
	9,747,336	9,850,403
Expenses		
Pilots' salaries and benefits	6,831,340	7,627,641
Staff salaries and benefits	1,014,912	1,035,697
Transportation and travel	715,187	707,070
Pilot boat services	500,999	485,681
Employee termination benefits	269,894	215,172
Life insurance experience loss (Note 3)	114,242	275,836
Communications	65,300	49,583
Professional and special services	57,739	44,241
Rentals	46,237	41,749
Utilities, materials and supplies	40,783	28,156
Purchased despatching services	36,638	36,983
Repairs and maintenance	15,246	9,538
Depreciation	11,072	10,295
Retirement incentives (Note 4)		227,500
	9,719,589	10,795,142
Profit (loss) for the year	27,747	(944,739)

STATEMENT OF DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 1988

	1988	1987
	$	$
Balance, beginning of the year	2,068,594	1,123,855
Parliamentary appropriation (Note 5)	(1,018,971)	
(Profit) loss for the year	(27,747)	944,739
Balance, end of the year	1,021,876	2,068,594

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1988

	1988	1987
	$	$
Financing activities		
Parliamentary appropriation	1,018,971	
Operating activities		
Cash provided from (used in) operations		
Profit (loss) for the year	27,747	(944,739)
Items not requiring cash		
Employee termination benefits	269,894	215,172
Depreciation	11,072	10,295
Loss on disposal of fixed assets	309	
	309,022	(719,272)
Increase (decrease) in accrued life insurance experience loss	(236,860)	250,000
Increase (decrease) in accrued retirement incentives	(227,500)	227,500
Decrease in accounts payable and accrued liabilities	(249,896)	(82,855)
Decrease in accounts receivable	204,448	317,911
Decrease in accrued employee termination benefits	(718,733)	(198,792)
	(919,519)	(205,508)
Investing activities		
Net additions to fixed assets	(8,222)	(6,009)
Increase (decrease) in cash	91,230	(211,517)
Cash and short-term deposits, beginning of the year	2,984,235	3,195,752
Cash and short-term deposits, end of the year	3,075,465	2,984,235

GREAT LAKES PILOTAGE AUTHORITY, LTD.—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988

1. Authority and objectives

The Great Lakes Pilotage Authority was established on February 1, 1972 pursuant to the Pilotage Act, incorporated as a limited company on May 17, 1972, and is continued under the Canada Business Corporations Act. Pursuant to the Financial Administration Act, the Authority is deemed to be a parent Crown corporation listed in Schedule III Part I thereto. The majority of shares issued by the Authority are held by The St. Lawrence Seaway Authority, also a parent Crown corporation. The balance is held by the Authority's Chairman and six Directors appointed by the Governor in Council.

The objectives of the Authority are to establish, operate, maintain and administer a safe and efficient pilotage service within designated Canadian waters. The Act provides that the pilotage tariffs shall be fair, reasonable and sufficient and together with any revenue from other sources, shall permit the Authority to operate on a self-sustaining financial basis.

The Authority is exempt from any income taxes.

2. Significant accounting policies

Parliamentary appropriations

When revenues are not sufficient to permit the Authority to operate on a self-sustaining financial basis, cash operating losses are recovered from parliamentary appropriations. These appropriations are recorded in the accounts when approved by Parliament and are reflected in the statement of deficit.

Parliamentary appropriations to finance capital expenditures are recorded as contributed capital.

Depreciation

Depreciation of fixed assets is calculated on a straight-line basis and is based on the estimated useful lives of the assets as follows:

Buildings	20 years
Furniture and equipment	5 to 10 years

Pension plan

All employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. Contributions with respect to current service are expensed in the current period. Contributions with respect to past service benefits are expensed when paid, generally over the remaining years of service of the employees.

Employee termination benefits

Employees are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these benefits is recorded in the accounts as the benefits accrue to the employees. The current liability reflects the accrued termination benefits of only those employees who have indicated their intention to terminate their employment within the coming year.

Employee life insurance plan

The Authority provides an annual life insurance plan for its employees on a self-insurance basis. Surpluses, premiums and deficits from the plan are included in revenues and/or expenses in the year in which they apply.

3. Life insurance experience loss

During 1987, the Authority experienced an unusual number of claims against the employee life insurance plan amounting to an actual experience loss of $376,938; the amount estimated at December 31, 1987 was $275,836. The difference of $101,102 was recorded as an expense in 1988.

The life insurance experience loss for 1988 is estimated at $13,140.

4. Retirement incentives

The Authority instituted in 1987 a one-time retirement incentive plan for a number of its employees. Twelve employees decided to take the option of early retirement and left employment at December 31, 1987 for a total cost of $227,500. This incentive plan was not in effect for 1988.

5. Parliamentary appropriation

On March 29, 1988, Parliament provided, through Appropriation Act No. 6, 1987-88, for the 1987 cash operating loss of the Authority. An amount of $1,018,971 was received in 1988 by the Authority in respect of this appropriation.

6. Pension plan

Under provisions of the Pilotage Act, pilots who choose to become employees of the Authority are entitled to count service prior to becoming an employee as pensionable under the Public Service Superannuation Act. For pilots who have elected to purchase pension benefits with respect to past service, the Authority is required to match the employee contribution. The estimated unfunded past service pension contribution with respect to these employees was approximately $164,200 as of December 31, 1988 (1987—$208,400) and will be funded over the remaining years of service of the pilots, or the terms of purchase, whichever is the lesser.

In 1988, the pension expense was $430,697 (1987—$524,148) including $36,251 (1987—$42,679) for past service contributions.

7. Commitments

The Authority intends to renew its lease agreement for the rental of office space. The annual rental payments are estimated to be $43,000.

In addition, the Authority has contract commitments for the land transportation service for the next year. The estimated commitment with respect to these contracts is approximately $150,000. Tenders have been requested for the pilot boat services for the next two years. The estimated commitment is approximately $300,000 a year.

SUMMARY PAGE

HALIFAX PORT CORPORATION

MANDATE

Administration, management and control of the Halifax harbour and all works and property within the harbour previously under the jurisdiction of the Canada Ports Corporation or, prior to February 24, 1983, the National Harbours Board.

BACKGROUND

The Halifax Port Corporation was established on June 1, 1984, pursuant to the national ports policy to create local port corporations at the major ports and harbours previously under the centralized administration of the National Harbours Board and, since February 1983, the Canada Ports Corporation. Total cargo handled by the port in 1988 amounted to 16.2 million tonnes. Of this, the corporation's facilities handled 4.6 million tonnes including 3.5 million tonnes of containerized cargo.

CORPORATION DATA

HEAD OFFICE	P.O. Box 336 Ocean Terminal Halifax, Nova Scotia B3J 2P6
STATUS	— Schedule III, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Benoît Bouchard, P.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1984; letters patent of incorporation issued by the Minister of Transport pursuant to subsection 25 (1) of the *Canada Ports Corporation Act*.
CHIEF EXECUTIVE OFFICER	David F. Bellefontaine
CHAIRMAN	Donald A. Parker
AUDITOR	Doane Raymond

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1988	1987	1986	1985
At the end of the year				
Total Assets	65.0	62.0	60.6	60.2
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	3.8	4.1*	30.0	28.2
Equity of Canada	58.4	55.2*	23.2	23.9
Cash from Canada in the period				
— budgetary**	nil	nil	nil	(negl.)
— non-budgetary	nil	nil	4.1	2.6

* In 1987, $25.6 million loan principal outstanding was forgiven by Canada. That amount, with related interest forgiven, was added to the corporation's contributed capital.

** Takes no account of payments to Canada: in 1987, dividend $0.3 million and, in 1986, special contributions, $1.9 million.

HALIFAX PORT CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE BENOÎT BOUCHARD, P.C., M.P.
MINISTER OF TRANSPORT

We have examined the balance sheet of the Halifax Port Corporation as at December 31, 1988 and the statements of income and surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with the Financial Administration Act and Regulations, the Canada Ports Corporation Act, and the by-laws of the Corporation.

Doane Raymond
Chartered Accountants

Halifax, Canada
February 2, 1989

BALANCE SHEET AS AT DECEMBER 31, 1988

ASSETS	1988	1987
	$	$
Current		
Cash	230,462	227,232
Investments (Note 3)	5,794,295	5,620,579
Accounts receivable	2,736,263	2,741,320
Materials and supplies	126,167	102,783
	8,887,187	8,691,914
Investments (Note 3)	33,405	33,300
Fixed (Note 4)	56,115,970	53,243,487
	65,036,562	61,968,701

LIABILITIES	1988	1987
	$	$
Current		
Accounts payable and accrued liabilities	1,159,545	911,350
Grants in lieu of municipal taxes	71,664	201,002
Deferred revenues	928,571	892,851
Current portion of long-term debt	334,057	303,688
	2,493,837	2,308,891
Accrued employee benefits	679,499	662,746
Loans from Canada (Note 5)	3,486,176	3,820,233
	6,659,512	6,791,870
EQUITY		
Contributed capital	53,796,865	53,796,865
Surplus	4,580,185	1,379,966
	58,377,050	55,176,831
	65,036,562	61,968,701

On behalf of the Board:

DONALD A. PARKER
Chairman

DAVID F. BELLEFONTAINE
President and Chief Executive Officer

HALIFAX PORT CORPORATION—*Continued*

STATEMENT OF INCOME AND SURPLUS
YEAR ENDED DECEMBER 31, 1988

	1988	1987
	$	$
Revenue from operations	14,836,049	12,866,025
Operating and administrative expenses	9,201,859	8,211,102
Depreciation	1,934,257	2,033,490
Grants in lieu of municipal taxes	790,963	907,200
	11,927,079	11,151,792
Income from operations	2,908,970	1,714,233
Investment income	594,105	418,840
Interest expense	(412,392)	(440,000)
Gain on disposal of fixed assets	2,456	3,778
	184,169	(17,382)
Net income before extraordinary item	3,093,139	1,696,851
Extraordinary item		
Gain on sale of land	266,135	
Net income	3,359,274	1,696,851
Surplus (deficit), beginning of year	1,379,966	(46,976,415)
Deficit reduction		46,976,415
	4,739,240	1,696,851
Dividend to Canada	159,055	316,885
Surplus, end of year	4,580,185	1,379,966

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1988

	1988	1987
	$	$
Operating activities		
Net income before extraordinary item	3,093,139	1,696,851
Depreciation	1,934,257	2,033,490
Other	55,628	(24,388)
Decrease in operating components of working capital	136,250	116,545
Cash provided by operating activities	5,219,274	3,822,498
Financing activities		
Loans from Canada	(303,687)	(276,079)
Dividend to Canada	(159,055)	(316,885)
Cash applied to financing activities	(462,742)	(592,964)
Investing activities		
Proceeds from sale of land	266,135	
Additions to fixed assets	(4,852,977)	(1,443,777)
Other	7,256	10,461
Cash applied to investing activities	(4,579,586)	(1,433,316)
Increase in cash and short-term investments	176,946	1,796,218
Cash and short-term investments, beginning of year	5,847,811	4,051,593
Cash and short-term investments, end of year	6,024,757	5,847,811

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988

1. In accordance with the Canada Ports Corporation Act, sections 6.1 and 6.2, a petition for the establishment of a local port corporation at the Port of Halifax was approved and the Halifax Port Corporation was established effective June 1, 1984.

   In accordance with the Canada Ports Corporation Act, the assets, liabilities and equity were transferred at their carrying values in the accounts of the Canada Ports Corporation—Port of Halifax to the Halifax Port Corporation.

2. Significant accounting policies

   (a) Investments

   The investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. Premiums or discounts are amortized over the periods to maturity.

   (b) Fixed assets

   Fixed assets are recorded at cost except for those transferred to the Corporation from Canada which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

   Depreciation is calculated on the straight-line basis for the full year, commencing with the year the asset becomes operational, using rates based on the estimated useful lives of the assets.

   (c) Pension costs

   All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions for pensions are recognized in the accounts on a current basis.

   (d) Grants in lieu of municipal taxes

   The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the Municipal Grants Act. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

   (e) Employee benefits

   The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees in subsequent years under its collective agreements, or in accordance with its policy.

HALIFAX PORT CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988—*Concluded*

3. Investments

	1988		1987	
	Amortized cost	Face value	Amortized cost	Face value
	$	$	$	$
Short-term	5,794,295	6,039,800	5,620,579	5,706,200

	1988		1987	
	Amortized cost	Market value	Amortized cost	Market value
	$	$	$	$
Long-term	33,405	34,270	33,300	32,342

4. Fixed assets

	1988				1987
	Depreciation rates	Cost	Accumulated depreciation	Net book value	Net book value
	%	$	$	$	$
Land		23,324,988		23,324,988	23,324,988
Dredging	2.5-6.7	2,627,637	2,255,160	372,477	369,113
Berthing structures	2.5-10	32,310,994	17,910,525	14,400,469	14,899,890
Buildings	2.5-10	16,796,717	11,023,856	5,772,861	6,113,999
Utilities	3.3-10	4,510,147	2,008,091	2,502,056	2,609,784
Roads and surfaces	2.5-10	7,462,891	4,117,353	3,345,538	3,737,024
Machinery and equipment	5-100	9,408,757	7,792,272	1,616,485	1,719,844
Office furniture and equipment	20	920,031	738,952	181,079	257,710
Projects under construction		4,600,017		4,600,017	211,135
		101,962,179	45,846,209	56,115,970	53,243,487

5. Loans from Canada

	1988	1987
	$	$
10% loan maturing on December 31, 1996 repayable in blended annual principal and interest payments of $716,080	3,820,233	4,123,920
Less: current portion repayable within one year	334,057	303,687
	3,486,176	3,820,233

The loans from Canada are unsecured.

SUMMARY PAGE

HARBOURFRONT CORPORATION

MANDATE

a) To develop, manage and operate the waterfront in accordance with the development framework.

b) To initiate, conduct or sponsor cultural, recreational, scientific and educational programs which, in its opinion are of advantage to the public.

BACKGROUND

The Harbourfront site in Toronto was delineated by the federal government in 1972 through the assembly of lands it owned plus other lands it expropriated. Extensive decayed properties were removed. With the efforts of all levels of government and an interim board, a long-term development plan was established and the mandate for Harbourfront Corporation was put in place in 1978. Since 1976, active Harbourfront programs of cultural, recreational and educational activities have made the site an attractive, busy public place. In addition to its spending on facilities for public use, the corporation has furthered private sector development on the site by leasing some land and selling air rights and with its cash flow from related development Harbourfront is aiming for financial self-sufficiency in its operation.

CORPORATION DATA

HEAD OFFICE	Suite 100 410 Queen's Quay West Toronto, Ontario M5V 2Z3
STATUS	— Schedule III, Part I — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Elmer MacKay, P.C., M.P.
DEPARTMENT	Public Works
YEAR AND MEANS OF INCORPORATION	1936; as Terminal Warehouses Ltd, under the Ontario *Companies Act*; July 14, 1978, as Harbourfront Corporation, under the *Business Corporations Act* of Ontario; continued under the *Canada Business Corporations Act,* December 21, 1984.
CHIEF EXECUTIVE OFFICER (ACTING)	Frank Mills
CHAIRMAN	Consiglio Di Nino
AUDITOR	KPMG Peat, Marwick and The Auditor General of Canada

FINANCIAL SUMMARY ($ million) Financial years ending March 31.

	1989	1988	1987* (restated)	1986
At the end of the period				
Total Assets	35.0	42.4**	52.7	36.3
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	30.9	38.7	49.6	0.3
Cash from Canada in the period				
— budgetary	nil	nil	1.0	6.1
— non-budgetary	nil	nil	nil	nil

* The 1986-87 and subsequent financial statements reflect a change in the corporation's accounting so as to recognize that Harbourfront's proceeds from development have contributed to the funding of the corporation's activities.

** The value assigned to Receivables from developers on the balance sheet was reduced by $12 million in the period.

HARBOURFRONT CORPORATION

AUDITORS' REPORT

TO THE MINISTER OF PUBLIC WORKS

We have examined the consolidated balance sheet of Harbourfront Corporation as at March 31, 1989 and the consolidated statements of operations, contributed capital and retained earnings (deficit) and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation and its subsidiaries that have come to our notice during our examination of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the charter and by-laws of the Corporation and the management agreement dated June 13, 1980 as amended and renewed from time to time and expiring March 31, 1990.

Toronto, Canada
June 2, 1989

Peat Marwick
Chartered Accountants

Raymomd Dubois, F.C.A
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 2, 1989

CONSOLIDATED BALANCE SHEET MARCH 31, 1989
(with comparative figures for 1988)

ASSETS	1989	1988
	$	$
Current assets		
Cash and term deposits (Note 4)	1,880,019	2,793,999
Receivable from Canada (Note 5)	5,917,673	9,222,809
Receivable from developers (Note 6)	4,998,671	9,796,866
Other receivables and assets	1,389,570	1,713,188
	14,185,933	23,526,862
Non-current assets		
Receivable from Canada (Note 5)	1,839,097	731,931
Receivable from developers (Note 6)	12,445,999	11,714,691
Prepaid leases	435,000	580,000
Deferred development costs (Note 7)	4,448,225	4,141,052
Fixed assets (Note 8)	1,607,633	1,265,505
	20,775,954	18,433,179
	34,961,887	41,960,041

LIABILITIES AND SHAREHOLDER'S EQUITY	1989	1988
	$	$
Current liabilities		
Accounts payable and accrued liabilities	3,143,981	2,957,918
Deferred revenues	886,184	772,133
	4,030,165	3,730,051
SHAREHOLDER'S EQUITY		
Share capital (Note 9)	1	1
Contributed capital	32,493,635	34,441,284
Retained earnings (deficit)	(1,561,914)	3,788,705
	30,931,722	38,229,990
	34,961,887	41,960,041

See accompanying notes to consolidated financial statements.

Approved by the Board:

C. DI NINO
Director

NORMAN SEAGRAM
Director

HARBOURFRONT CORPORATION—*Continued*

CONSOLIDATED STATEMENT OF OPERATIONS
YEAR ENDED MARCH 31, 1989
(with comparative figures for 1988)

	1989	1988
	$	$
Public programming and facilities		
Revenues		
Event admissions	2,004,739	1,689,202
Corporate sponsorships	1,648,965	1,084,337
Government grants	960,063	835,117
Parking, concessions and other income	3,726,480	3,217,530
Facility rentals	829,669	869,932
	9,169,916	7,696,118
Expenses		
Event production	5,654,126	4,668,672
Event administration	1,159,810	1,045,972
Marketing	2,647,407	2,336,683
Operation of facilities	6,808,231	5,107,561
	16,269,574	13,158,888
Loss on public programming and facilities	(7,099,658)	(5,462,770)
Commercial and corporate activities		
Revenues		
Commercial income	2,294,938	2,519,884
Interest on receivables from developers	1,289,960	867,845
Interest on Harbourfront Capital Account	917,673	642,794
	4,502,571	4,030,523
Expenses		
Commercial management	1,505,810	1,030,136
Corporate administration	1,247,722	1,322,500
	2,753,532	2,352,636
Profit on commercial and corporate activities	1,749,039	1,677,887
Net loss for the year	(5,350,619)	(3,784,883)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CONTRIBUTED CAPITAL AND RETAINED EARNINGS (DEFICIT)
YEAR ENDED MARCH 31, 1989
(with comparative figures for 1988)

	1989	1988
	$	$
Contributed capital		
Balance, beginning of year	34,441,284	41,605,107
Net proceeds on development activity	62,053	375,694
Cost of parkland and public infrastructure conveyed to municipal governments	(206,267)	(3,474,781)
Period development and other public infrastructure costs	(1,803,435)	(4,064,736)
Balance, end of year	32,493,635	34,441,284
Retained earnings (deficit)		
Balance, beginning of year	4,238,705	8,023,588
Correction of receivable from developers	(450,000)	(450,000)
Revised balance, beginning of year	3,788,705	7,573,588
Net loss for the year	(5,350,619)	(3,784,883)
Balance, end of year	(1,561,914)	3,788,705

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED MARCH 31, 1989
(with comparative figures for 1988)

	1989	1988
	$	$
Operating		
Net loss for the year	(5,350,619)	(3,784,883)
Depreciation	496,525	287,372
	(4,854,094)	(3,497,511)
Other receivables and assets	323,618	108,669
Prepaid leases	145,000	(580,000)
Accounts payable and accrued liabilities	186,063	1,395,137
Deferred revenues	114,051	(716,011)
Interest receivable on the Harbourfront Capital Account	(594,864)	34,213
	(4,680,226)	(3,255,503)
Investing		
Investment in fixed assets	(966,739)	(1,352,570)
Loss on disposal of fixed assets	(31,314)	
Harbourfront Capital Account		
Deposits	(4,107,166)	(11,059,166)
Withdrawals	6,900,000	8,400,000
	1,794,781	(4,011,736)
Financing		
Grants and sponsorship of fixed assets	159,400	843,850
Development		
Net proceeds on development activity	62,053	375,694
Cost of parkland and public infrastructure conveyed to municipal governments	(206,267)	(3,474,781)
Period development and other public infrastructure costs	(1,803,435)	(4,064,736)
Deferred development costs	(307,173)	2,088,338
Receivable from developers	4,066,887	11,759,335
	1,812,065	6,683,850
Change in the year	(913,980)	260,461
Cash and term deposits, beginning of year	2,793,999	2,533,538
Cash and term deposits, end of year	1,880,019	2,793,999

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1989

1. Authority and mandate of the Corporation

Harbourfront Corporation (the "Corporation"), continued under the Canada Business Corporations Act December 21, 1984, is a parent Crown corporation listed under Part I of Schedule III of the Financial Administration Act. The share capital of the Corporation is held by Her Majesty the Queen in Right of Canada ("Canada") as represented by the Minister of Public Works. The Corporation is exempt from corporate income tax.

The Harbourfront site, owned by Canada, totals approximately 100 acres and occupies a central position on the Toronto waterfront.

Under a Management Agreement with Canada dated June 13, 1980 as amended and renewed from time to time and expiring March 31, 1990, the Corporation has the dual role and mandate to:

(a) Develop, manage and operate the Harbourfront site in accordance with a development framework approved by Canada; and

HARBOURFRONT CORPORATION—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1989—*Continued*

(b) Initiate, conduct or sponsor cultural, recreational, scientific and educational programs which, in its view, are of advantage to the public.

Title to the lands of the Harbourfront site is held by Canada with the exception of parkland and public infrastructure conveyed to municipal governments and certain lands transferred to the Corporation by Canada. All development activity by the Corporation relates to the sale of air rights or the lease of lands of the Harbourfront site on behalf of Canada. The net proceeds generated by the Corporation from the development of the Harbourfront site as well as capital contributions from Canada are credited to contributed capital to recognize Canada's contribution to the capital funding of the Corporation.

In order that the Corporation achieve financial self-sufficiency, all funds derived from the capitalized leasing, sale or resale of lands or development rights are available to the Corporation in fulfilling its mandate. These funds, when received from developers, are placed on deposit with Canada in the Harbourfront Capital Account, an interest bearing account of the Consolidated Revenue Fund. The principal may be withdrawn by the Corporation with the approval of Canada. The interest is distributable to the Corporation on request.

The principal subsidiaries of the Corporation are The Art Gallery at Harbourfront, International Readings at Harbourfront and School by the Water.

2. Development freezes

During the period April through October, 1987, a policy review of the role and mandate of the Corporation was performed at the request of the Minister of Public Works. All development projects of the Corporation were held by abeyance during the review and subsequently released.

On February 22, 1988, Toronto City Council passed the Interim Control Bylaw suspending, with very few exceptions, all development activity on the Harbourfront site. Negotiations to end this development freeze are in progress. Principles of settlement have been agreed to by the Corporation and representatives of the City. The proposed settlement, which establishes a new basis for the development of Harbourfront, is subject to approval by Toronto City Council and Canada. Under the proposed settlement, the Corporation would agree to convey 40.8 acres of the 100 acre Harbourfront site to the City and to provide $25 million towards the cost of improving the City's parks at Harbourfront over the next six years.

Due to the uncertainty of the impact on the Corporation, the possible ramifications of these actions have not been reflected in these financial statements.

3. Accounting policies

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

The significant accounting policies of the Corporation are as follows:

(a) Basis of consolidation

These consolidated financial statements include the accounts of the Corporation and its subsidiaries.

(b) Revenue recognition

Revenues from public programming activities are recognized on performance of the related event. Revenues from public facilities and commercial activities are recognized as the related services are provided.

(c) Development proceeds and costs

All development proceeds and costs directly attributable to a project are deferred until approval of the related development agreement is received from Canada, at which time, the proceeds are recorded, net of related development costs, as contributed capital. Development costs not attributable to a particular project are charged to contributed capital as incurred.

(d) Parkland and public infrastructure

Costs related to parkland and public infrastructure expected to be conveyed are deferred and charged to contributed capital when title is passed to the appropriate municipal government. All other public infrastructure costs are charged to contributed capital as incurred.

(e) Government grants and corporate sponsorship

Grants and sponsorship income are recorded as receivable when receipt is reasonably assured. Grants and sponsorship income are recognized as revenue on performance of the related event or over the period being funded, as appropriate. Grants and sponsorships related to specific capital projects are applied against the cost of those projects. Grants from Canada for the development of the site are made in its capacity as shareholder and are recorded as contributed capital.

(f) Fixed assets

Fixed assets are recorded at cost, net of related government grants and corporate sponsorship. Depreciation is calculated on the straight-line basis over the estimated useful life of each asset. Transfers of land to the Corporation from Canada, required to facilitate certain development agreements, are recorded at a cost of $1.

4. Cash and term deposits

Included in cash and term deposits is a separate "Investment in the Arts" account of $150,571. This fund is comprised of a $120,000 contribution by the Ontario Ministry of Culture and Communications and a $30,571 contribution by Harbourfront Corporation.

5. Receivable from Canada

	1989	1988
	$	$
Deposit in the Harbourfront Capital Account	6,839,097	9,631,931
Interest receivable on the Harbourfront Capital Account	917,673	322,809
	7,756,770	9,954,740
Less non-current portion	1,839,097	731,931
	5,917,673	9,222,809

At March 31, 1989, $1,325,562 (1988—$1,307,908) received on the sale of air rights and included in cash and term deposits, remained to be placed on deposit in the Harbourfront Capital Account.

HARBOURFRONT CORPORATION—*Concluded*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1989—*Concluded*

6. Receivable from developers

	1989	1988
	$	$
Due on sale of air rights	15,665,395	20,155,249
Interest and construction allowances	1,779,275	1,356,308
	17,444,670	21,511,557
Less non-current portion	12,445,999	11,714,691
	4,998,671	9,796,866

7. Deferred development costs

	1989	1988
	$	$
Deferred costs of projects under development	713,676	713,676
Deferred costs of parkland and public infrastructure	3,734,549	3,427,376
	4,448,225	4,141,052

8. Fixed assets

	1989	1988
	$	$
Land	1	1
Building	3,658,959	3,658,659
Equipment	2,151,823	1,185,384
	5,810,783	4,844,044
Less government grants and corporate sponsorship	3,227,753	3,068,353
	2,583,030	1,775,691
Less accumulated depreciation	975,397	510,186
	1,607,633	1,265,505

Construction of The Art Gallery at Harbourfront was completed in 1988. As the capital costs of this facility are expected to be recovered from pledges, no depreciation of the unrecovered capital costs of $431,206 (1988—$590,306) has been recorded in the year.

9. Share capital

As at March 31, 1989, the authorized share capital of the Corporation consists of 500,000 (1988—500,000) common shares without par value of which 215,500 (1988—215,500) shares are issued and fully paid for consideration of $1 (1988—$1).

10. Cumulative contributions by Canada

The following unaudited historical cost information in millions of dollars has been supplied by the Department of Public Works:

	Fiscal 1972 to 1980	Fiscal 1981 to 1989	Total
	$	$	$
Land acquisition	54.4		54.4
Operating and capital expenditures	21.5		21.5
Operating contributions		8.5	8.5
Development and land acquisition contributions		51.3	51.3
	75.9	59.8	135.7

Amounts contributed subsequent to fiscal 1980 represent expenditures pursuant to the Management Agreement with Canada.

Only that portion which represents cash received from Canada has been recorded in the accounts of the Corporation.

11. Litigation

The Corporation is the defendant in a number of legal actions and, in a number of instances, instituted counterclaims. In the opinion of management, these actions will not have a material adverse effect on the financial position of the Corporation.

12. Comparative figures

Certain comparative figures have been restated to conform to presentation adopted in the current year.

SUMMARY PAGE

INTERNATIONAL CENTRE FOR OCEAN DEVELOPMENT

MANDATE

To initiate, encourage and support cooperation between Canada and developing countries in the field of ocean resource development.

BACKGROUND

ICOD was established by statute as a parent Crown corporation in February 1985. Its work complements that of CIDA, the International Development Research Centre, and other development assistance organizations. It is seen as an important new dimension in Canada's efforts to assist less developed countries through its long experience and expertise in marine resource management.

CORPORATION DATA

HEAD OFFICE	5670 Spring Garden Road 9th Floor Halifax, Nova Scotia B3J 1H6
STATUS	— Schedule III, Part I — not an agent of Her Majesty
APPROPRIATE MINISTER	The Right Honourable Monique Landry, P.C., M.P.
DEPARTMENT	External Affairs
YEAR AND MEANS OF INCORPORATION	1985; *The International Centre For Ocean Development Act*, (R.S.C. 1985, 1st Suppl. c. 17).
CHIEF EXECUTIVE OFFICER	G.C. Vernon
CHAIRMAN	Elisabeth Mann Borgese
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) Financial years ending March 31.

	1989	1988	1987	1986
At the end of the period				
Total Assets	1.3	0.2	0.1	0.1
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	negl.	negl.	negl.	negl.
Cash from Canada in the period				
— budgetary	8.0	6.4	4.0	1.1
— non-budgetary	nil	nil	nil	nil

INTERNATIONAL CENTRE FOR OCEAN DEVELOPMENT

AUDITOR'S REPORT

TO THE MINISTER FOR EXTERNAL RELATIONS
AND INTERNATIONAL DEVELOPMENT

I have examined the balance sheet of the International Centre for Ocean Development as at March 31, 1989 and the statements of operations, surplus, contributed surplus and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Centre as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Centre that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the International Centre for Ocean Development Act, and the by-laws of the Centre.

Raymond Dubois, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 5, 1989

BALANCE SHEET AS AT MARCH 31, 1989

ASSETS	1989	1988
	$	$
Current		
Cash	292,713	37,464
Accounts receivable	69,672	34,977
Accounts receivable—Canadian International Development Agency	973,648	169,867
	1,336,033	242,308

LIABILITIES	1989	1988
	$	$
Current		
Accounts payable and accrued liabilities	668,932	208,991
Advances from Canadian International Development Agency	621,485	
	1,290,417	208,991
EQUITY		
Contributed surplus (Note 3)		54,227
Surplus (deficit)	45,616	(20,910)
	45,616	33,317
	1,336,033	242,308

Approved by the Board:

ELLEN S. MCLEAN
Director

SHARON J. PROCTOR
Director

INTERNATIONAL CENTRE FOR OCEAN DEVELOPMENT—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1989

	1989	1988
	$	$
Program activities		
Technical assistance		
Technical assistance projects (Schedule A)	2,098,071	2,010,195
Program—Development and related expenses	80,070	88,334
—Administration costs (Schedule E)	531,010	451,524
	2,709,151	2,550,053
Information		
Information—Projects (Schedule B)	534,778	123,412
—Services expenses	183,558	139,647
Program administration costs (Schedule E)	486,889	363,543
	1,205,225	626,602
Training		
Course development projects (Schedule C)	1,359,801	1,145,878
Scholarship projects (Schedule D)	1,379,525	910,709
Program—Development and related expenses	76,654	11,720
—Administration costs (Schedule E)	557,114	408,584
	3,373,094	2,476,891
Total program activities expenditures	7,287,470	5,653,546
Administrative expenditures (Schedule F)	1,285,690	904,809
	8,573,160	6,558,355
Deduct revenues:		
Recoveries—Canadian International Development Agency (Note 7)	504,383	135,750
Interest and other income	81,076	11,979
	585,459	147,729
Cost of operations for the year	7,987,701	6,410,626

STATEMENT OF SURPLUS
FOR THE YEAR ENDED MARCH 31, 1989

	1989	1988
	$	$
(Deficit) at beginning of the year	(20,910)	(10,284)
Transfer of contributed surplus to deficit (Note 3)	54,227	
Parliamentary appropriations	8,000,000	6,400,000
	8,033,317	6,389,716
Deduct: cost of operations for the year	7,987,701	6,410,626
Surplus (deficit) at end of the year	45,616	(20,910)

STATEMENT OF CONTRIBUTED SURPLUS
FOR THE YEAR ENDED MARCH 31, 1989

	1989	1988
	$	$
Contributed surplus at beginning of the year	54,227	54,227
Transfer of contributed surplus to deficit (Note 3)	(54,227)	
Contributed surplus at end of the year		54,227

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1989

	1989	1988
	$	$
Financing activities		
Parliamentary appropriations	8,000,000	6,400,000
Operating activities		
Cost of operations for the year	(7,987,701)	(6,410,626)
Decrease (increase) in non-cash working capital items	242,950	(22,029)
	(7,744,751)	(6,432,655)
Increase (decrease) in cash	255,249	(32,655)
Cash at beginning of the year	37,464	70,119
Cash at end of the year	292,713	37,464

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989

1. Authority and objectives

The International Centre for Ocean Development was established by the International Centre for Ocean Development Act in 1985 as a Crown corporation without share capital, named in Part I of Schedule III to the Financial Administration Act. The Centre is dependent on the Government of Canada for operating appropriations.

The objectives of the Centre are to initiate, encourage and support cooperation between Canada and developing countries in the field of ocean resource development by:

(a) initiating and supporting programs in developing countries for the improved management and utilization of ocean resources, particularly as a source of food;

(b) supporting the development of indigenous expertise and institutions in developing countries in order to increase the capacity of developing countries in integrated ocean use management;

(c) enlisting the expertise of people and institutions in Canada, developing countries and elsewhere;

(d) developing and sponsoring the collection and dissemination of information relating to ocean resource development;

(e) developing and sponsoring training programs, technical assistance and advisory services relating to ocean resource development; and

(f) supporting research relating to ocean resource development.

2. Significant accounting policies

The financial statements reflect the following policies:

(a) Capital expenditures

Purchases of equipment, office furniture, and costs of leasehold improvements are expensed in the year of acquisition.

(b) Parliamentary appropriations

Parliamentary appropriations are recorded in the Statement of Surplus for the year to which they apply.

INTERNATIONAL CENTRE FOR OCEAN DEVELOPMENT—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989—*Concluded*

(c) Project expenditures

The Centre enters into agreements with third parties to undertake projects. Project expenditures are charged to operations when disbursed and as they become due under the terms of the contractual agreement.

(d) Pension plan

Employees of the Centre are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required equally from the employees and the Centre. These contributions represent the total liability of the Centre and are recognized in the accounts on a current basis.

(e) Foreign currency translation

Monetary assets and liabilities are translated at exchange rates in effect at the balance sheet date. Foreign administrative expenses are translated using the weighted average of exchange rates in effect at the date of transfer to the Centre's foreign office. The resulting foreign currency translation gains and losses are included in the results of operations.

(f) Recognition of recoveries

Revenue in respect of projects is recognized at the time the related expenses are incurred.

3. Contributed surplus

Pursuant to the approval of the Minister of External Relations and International Development, the contributed surplus of $54,227 has been transferred to the surplus, effective March 13, 1989. Contributed surplus represented the net book value of assets contributed to the Centre by the predecessor, non-government organization, International Centre for Ocean Development.

4. Income taxes

The Centre is exempt from income taxes.

5. Operating leases

The Centre has entered into various operating lease arrangements for office premises and equipment. The future minimum lease payments are as follows:

Year ending March 31	$
1990	356,624
1991	402,561
1992	402,561
1993	18,552
1994	18,552
	1,198,850

6. Contractual commitments

The Centre is committed to the following project expenditures, subject to compliance by recipients with the terms of their agreements.

Year ending March 31	$
1990	5,407,000
1991	2,353,700
1992	1,262,800
	9,023,500

7. Canadian International Development Agency Projects

The Centre administers four projects which are funded by the Canadian International Development Agency. Expenses and revenues for these projects totalled $504,383 (1988 — $135,750).

8. Comparative figures

The 1988 figures have been reclassified to conform to the statement presentation adopted in 1989.

TECHNICAL ASSISTANCE PROJECTS
FOR THE YEAR ENDED MARCH 31, 1989 SCHEDULE A

Project Number		1989	1988
		$	$
880223	CIDA/South Pacific Funding	177,660	
870116	Research Coordination Unit	151,921	50,000
850011	FFA Surveillance	127,017	252,857
880227	OECS Small Projects Funding Program	101,693	
880235	Caribbean Regional Marine Resource Assessment Project	100,120	
870132	Fisheries Data Management, Institutional Enhancement Program	99,367	63,900
880186	Maritime Boundary Delimitation Workshop—South Pacific	99,029	
860041	CCOP/SOPAC—Regional Marine Geology	93,461	90,002
850010	OECS Fisheries Desk	75,000	346,233
860055	Morocco Fisheries Data Management	74,078	49,521
880214	Eastern Caribbean—Fisheries Monitoring, Control and Surveillance	72,824	
870138	Reef Fisheries Management Planning —Jamaica/Belize	71,100	
880259	Small Fisheries Projects Funding Program	70,000	
860030	Research Vessel Operation	69,635	61,654
870183	Fishing Vessel Evaluation —Seychelles	67,916	
870161	Vanuatu Fisheries Extension Advisor	66,266	
880226	Training in Fish Quality Control and Inspection	66,010	
870150	Rural Fishing Groups—Solomon Islands	48,694	
870135	Lagoonal Health Characteristics —Mauritius	45,767	
880212	Lobster Assessment Program —Jamaica	45,000	
860051	Economically Important Reef Fish (Maldives)	40,705	10,963
880250	Fisheries Division Institutional and Administrative Planning	40,000	
860072	Economic Analysis of Costa Rica	39,240	80,087
870182	Production Assistance for Artemia Salina—Mauritus	29,409	
870107	Guidelines Fish Quality Control —Seychelles	16,062	78,634

INTERNATIONAL CENTRE FOR OCEAN DEVELOPMENT—*Continued*

TECHNICAL ASSISTANCE PROJECTS FOR THE YEAR ENDED MARCH 31, 1989—*Concluded* SCHEDULE A

Project Number		1989	1988
		$	$
860032	Fisheries Surveillance —South and West Indian Ocean	10,753	51,328
870178	VSS Feasibility Test	10,000	30,000
860083	Vanuatu—Fisherman's Tour	8,400	33,000
870164	South Pacific Prosecutions Procedures Study	6,500	42,000
870173	Legal Affairs Unit—Forum Fisheries Agency, South Pacific	6,000	43,000
870162	Regional Fisheries Database Implementation	4,000	28,000
860100	Coral/Sand Removal —Mauritius	1,650	50,047
860036	Sea Moss Cultivation Programme	1,527	105,187
870163	Cook Islands Boundary Delimitation Assistance	5	27,721
860049	Caribbean Fisheries Training —Phase II		92,310
860094	Maldives Surveillance		78,013
860082	VFDP Evaluation		41,668
870124	OECS Workshop on Regional Fisheries Access		26,250
860098	Consultancy in Fisheries Management		25,504
	Subtotal	1,936,809	1,757,879
	Projects under $25,000	161,262	252,316
		2,098,071	2,010,195

INFORMATION PROJECTS FOR THE YEAR ENDED MARCH 31, 1989 SCHEDULE B

Project Number		1989	1988
		$	$
870130	Pacific Islands Marine Resources Information System (PIMRIS)	110,000	
870137	Strengthening Technical Information Services	100,000	
880255	Conference on Management and Development Strategies on South Pacific Fisheries	78,000	
880217	Marine Law Database and Document Delivery Service (MARLAW)	75,000	
880193	Enhancement of Fisheries Information Handling Capabilities at the Forum Fisheries Agency (FFA)	36,665	
870179	Environmental Eduction Kit on Coastal Zone Protection	30,000	
860063	Training Directory—Phase II	677	43,343
	Subtotal	430,342	43,343
	Projects under $25,000	104,436	80,069
		534,778	123,412

COURSE DEVELOPMENT PROJECTS FOR THE YEAR ENDED MARCH 31, 1989 SCHEDULE C

Project Number		1989	1988
		$	$
850014	Marine Affairs Diploma Course	437,150	272,286
860070	Marine Affairs Diploma Materials	163,596	135,622
880191	OECS Fisherman's Training Program	127,262	
880195	Graduate Program in (Marine) Resource and Environmental Management	107,044	
880211	Micro Computer Training and Systems Development; FIFD	72,675	
880188	Fisheries Extension Training Courses; Pacific Island Countries	64,054	
870123	Erindale Maritime Boundary Delimitation Course	53,350	52,825
870131	University of Papua New Guinea, Law Faculty Assistance	42,095	
880269	Computer Training and Upgrading —Forum Fisheries Agency and Member States	30,000	
870128	Mariculture Training: Micronesia	29,147	
880268	Fisheries Consultancies	27,000	
870113	FFA Observer Training Course	26,200	23,756
860060	Stock Assessment —CECAF	14,788	326,523
860027	WMU Sea Use Planning Course	330	31,043
870111	SPC Fisheries Extension Skills Course		80,000
870115	Fisheries Enforcement Workshop, FFA		55,253
870127	WMU Training Modules Phase II		52,650
860102	Maritime Boundary Delimitation Course		38,511
	Subtotal	1,194,691	1,068,469
	Projects under $25,000	165,110	77,409
		1,359,801	1,145,878

INTERNATIONAL CENTRE FOR OCEAN DEVELOPMENT—*Concluded*

SCHOLARSHIP PROJECTS
FOR THE YEAR ENDED MARCH 31, 1989 SCHEDULE D

Project Number		1989	1988
		$	$
860074	Marine Affairs Diploma Scholarships	390,253	334,683
860076	ICOD Scholarship Programme (1987-91)	288,964	91,014
870167	CIDA Fellowships	134,644	34,740
860097	CIDA/WMU Africa Scholarships	91,104	101,011
860057	Non-fuel Minerals resource Management Course —CCOP/SOPAC	69,008	
850019	WMU Scholarships	66,612	67,512
860025	Regional University Scholarships	59,350	41,212
860062	Tropical Fisheries Diploma	44,178	70,263
850018	IOI Scholarships (Halifax Course)	43,440	40,500
870184	Short Term Attachements Program	42,002	
880218	IOI Scholarships: Indian Ocean 1988	40,000	
870160	Tropical Fisheries Diploma Scholarships (University of the South Pacific); Republic of Palau	36,556	
860103	Cooperation des Peches		46,890
	Subtotal	1,306,111	827,825
	Projects under $25,000	73,414	82,884
		1,379,525	910,709

TOTAL PROGRAM ADMINISTRATION COSTS
FOR THE YEAR ENDED MARCH 31, 1989 SCHEDULE E

	Salaries	Travel	Other	Total 1989	Total 1988
	$	$	$	$	$
Technical assistance	309,554	106,513	114,943	531,010	451,524
Information	346,681	56,202	84,006	486,889	363,543
Training	383,236	96,530	77,348	557,114	408,584
	1,039,471	259,245	276,297	1,575,013	1,223,651

ADMINISTRATIVE EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 1989 SCHEDULE F

	1989	1988
	$	$
Employee and contract staff salary and benefits	514,005	422,909
Professional services	159,186	37,485
Office equipment	111,367	90,787
Office supplies and services	93,488	49,961
Recruitment and relocation	88,833	71,708
Accommodation and leasehold improvements	79,767	74,400
Travel and hospitality	72,470	48,969
Directors' honoraria, travel and meetings	60,799	48,096
Communications and postage	55,284	45,511
Miscellaneous services and expenses	50,491	14,983
	1,285,690	904,809

SUMMARY PAGE

INTERNATIONAL DEVELOPMENT RESEARCH CENTRE

MANDATE

To initiate, encourage, support and conduct research into the problems of the developing regions of the world and into the means for applying and adapting scientific, technical and other knowledge to the economic and social advancement of those regions.

BACKGROUND

IDRC was created to help resolve, through research carried out by Third World scientists, the problems of poverty in the developing countries. To this end, it has established the following main program areas: Agriculture, Food and Nutrition Sciences; Health Sciences; Information Sciences; Social Sciences; Communication, and Earth and Engineering Sciences.

CORPORATION DATA

HEAD OFFICE	250 Albert Street Ottawa, Ontario K1G 3H9
STATUS	— not an agent of Her Majesty — exempt from provisions of Divisions I to IV of Part X of the *Financial Administration Act*
APPROPRIATE MINISTER	The Right Honourable Joe Clark, P.C., M.P.
DEPARTMENT	External Affairs
YEAR AND MEANS OF INCORPORATION	1970; by *The International Development Research Centre Act*, (R.S.C. 1985, c. I-19).
CHIEF EXECUTIVE OFFICER	Ivan L. Head
CHAIRMAN	Janet M. Wardlaw
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) Financial years ending March 31.

	1989	1988	1987	1986
At the end of the period				
Total Assets	34.3	24.3	14.3	16.7
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	4.0
Equity of Canada	13.9	8.6	2.6	1.1
Cash from Canada in the period				
— budgetary	114.2	108.1	96.0*	82.0*
— non-budgetary	nil	nil	nil	nil

* Net of $4.0 million repaid to Canada in each of these two years.

INTERNATIONAL DEVELOPMENT RESEARCH CENTRE

AUDITOR'S REPORT

TO THE INTERNATIONAL DEVELOPMENT RESEARCH CENTRE
AND THE
SECRETARY OF STATE FOR EXTERNAL AFFAIRS

I have examined the balance sheet of the International Development Research Centre as at March 31, 1989 and the statements of operations, equity of Canada and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards in Canada, conforming with International Auditing Guidelines, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Centre as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles in Canada, conforming with International Accounting Standards, applied on a basis consistent with that of the preceding year.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
June 2, 1989

BALANCE SHEET AS AT MARCH 31, 1989

ASSETS	1989	1988	LIABILITIES	1989	1988
	$	$		$	$
Current			Current		
Cash and short-term deposits (Note 3)	26,897,087	18,804,032	Accounts payable and accrued liabilities (Note 6)	12,373,696	9,421,661
Accounts receivable	888,653	739,013	Contract research (Note 7)	2,532,328	685,697
Prepaid expenses	1,394,660	973,566		14,906,024	10,107,358
	29,180,400	20,516,611	Accrued employee separation benefits	2,722,679	2,541,719
Recoverable deposits	183,430	197,721	Deferred rent—Head Office	2,616,835	2,921,709
Property and equipment (Note 4)	4,770,484	3,427,620	Endowment funds (Note 5)	165,441	151,273
Endowment funds (Note 5)	165,441	151,273	EQUITY		
			Equity of Canada	13,888,776	8,571,166
	34,299,755	24,293,225		34,299,755	24,293,225

Approved:

IVAN L. HEAD
President

ANTOINE HAWARA
Treasurer

INTERNATIONAL DEVELOPMENT RESEARCH CENTRE—*Continued*

STATEMENT OF OPERATIONS FOR THE YEAR ENDED MARCH 31, 1989

	1989	1988
	$	$
Expenses		
Development research activities		
Project grants	56,898,932	53,953,596
Centre-administered projects	6,777,332	6,301,802
Contract research (Note 7)	4,198,988	2,107,575
	67,875,252	62,362,973
Research-related activities		
Technical support	14,471,250	13,612,515
Program development support	6,382,458	5,265,836
Information dissemination	2,389,558	2,071,295
Development-research library	1,722,497	1,482,233
	24,965,763	22,431,879
Research operational support		
Regional offices	7,175,783	5,827,616
Division management	6,071,041	5,415,467
	13,246,824	11,243,083
Total research and support expenses (Schedule 1)	106,087,839	96,037,935
General management expenses (Schedule 2)	9,887,429	10,362,988
	115,975,268	106,400,923
Revenue		
Grant from Parliament of Canada	114,200,000	108,100,000
Investment and other income	2,893,890	2,209,588
Contract research (Note 7)	4,198,988	2,107,575
	121,292,878	112,417,163
Excess of revenue over expenses	5,317,610	6,016,240

STATEMENT OF EQUITY OF CANADA FOR THE YEAR ENDED MARCH 31, 1989

	1989	1988
	$	$
Balance at the beginning of the year	8,571,166	2,554,926
Excess of revenue over expenses	5,317,610	6,016,240
Balance at the end of the year	13,888,776	8,571,166

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1989

	1989	1988
	$	$
Operating activities		
Cash provided by operations		
Excess of revenue over expenses	5,317,610	6,016,240
Items not affecting cash		
Depreciation and amortization	995,099	944,724
Provision for employee separation benefits	551,298	356,694
Gain on disposal of equipment	(27,883)	(79,157)
	6,836,124	7,238,501
Changes in non-cash operating assets and liabilities		
Accounts receivable	(149,640)	(183,314)
Prepaid expenses	(421,094)	(272,901)
Recoverable deposits	14,291	247,033
Accounts payable and accrued liabilities	2,952,035	1,447,121
Payment of employee separation benefits	(370,338)	(292,215)
Contract research liability	1,846,631	(229,992)
Deferred rent	(304,874)	2,651,480
	10,403,135	10,605,713
Investing activities		
Additions to property and equipment	(2,349,863)	(1,088,862)
Proceeds on disposal of equipment	39,783	105,933
	(2,310,080)	(982,929)
Increase in cash	8,093,055	9,622,784
Cash and short-term deposits, beginning of the year	18,804,032	9,181,248
Cash and short-term deposits, end of the year	26,897,087	18,804,032

NOTES TO FINANCIAL STATEMENTS AS AT MARCH 31, 1989

1. Authority and objective

The International Development Research Centre, a Corporation without share capital, was established in 1970 by the Parliament of Canada through the International Development Research Centre Act. The annual grant received from the Parliament of Canada is pursuant to External Affairs Vote 50 for the years ended March 31, 1989 and 1988 respectively.

The objective of the Centre is to initiate, encourage, support, and conduct research into the problems of the developing regions of the world and into the means for applying and adapting scientific, technical, and other knowledge to the economic and social advancement of those regions.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles, conforming with International Accounting Standards, and reflect the following significant accounting policies.

INTERNATIONAL DEVELOPMENT RESEARCH CENTRE—*Continued*

NOTES TO FINANCIAL STATEMENTS
AS AT MARCH 31, 1989—*Continued*

Property and equipment

Property and equipment are recorded at cost and depreciated over their estimated useful lives. Leasehold improvements are amortized over the terms of the respective leases. The methods and rates used to provide for the depreciation and amortization of property and equipment are:

	Method	Rate(%)
Computer equipment	Straight-line	20
Leasehold improvements	Straight-line	5-50
Office furniture and equipment	Diminishing balance	20
Vehicles	Diminishing balance	30
Telephone system	Straight-line	20

Recognition of revenue

Parliamentary grants are recorded as revenue on an accrual basis.

Revenue in respect of contract research is recognized at the time the related project expenses are incurred. Contract research funds received in excess of expenses are included in current liabilities.

Accrued employee separation benefits

Employees are entitled to specified termination benefits, calculated at salary levels in effect at the time of separation as provided for by conditions of employment. The liability for these benefits is recorded as the benefits accrue to employees.

Deferred rent

Any rent-free period or other benefits associated with long-term leases are deferred and amortized over the term of the lease on a straight-line basis.

Pension costs

Employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from the employees and the Centre. These contributions represent the total liability of the Centre and are recognized in the accounts on a current basis.

Income taxes

The Centre is exempt from any liability for income taxes.

Foreign-currency translation

Foreign-currency transactions are translated into Canadian dollars by the use of an average exchange rate that closely approximates the rate in effect at the transaction date. Monetary assets and liabilities are adjusted to reflect the rate of exchange in effect at year-end. Exchange gains and losses are included in operations for the current year.

3. Cash and short-term deposits

	1989	1988
	$	$
Cash (bank overdraft)	(179,966)	211,052
Short-term deposits		
Canadian chartered banks	27,077,053	13,731,820
Trust and mortgage companies		3,867,140
Commercial enterprises		994,020
	26,897,087	18,804,032

Cash and short-term deposits include $2,654,512 (1988, $756,979) held for contract research and the V International Conference on AIDS (acquired immune deficiency syndrome).

4. Property and equipment

	1989			1988
	Cost	Accumulated depreciation and amortization	Net	Net
	$	$	$	$
Computer equipment	4,693,405	2,100,336	2,593,069	1,715,871
Office furniture and equipment	1,920,671	1,146,008	774,663	624,332
Vehicles	1,363,216	620,584	742,632	540,545
Leasehold improvements	764,660	268,361	496,299	259,310
Telephone system	759,418	595,597	163,821	287,562
	9,501,370	4,730,886	4,770,484	3,427,620

Depreciation and amortization for the year amounted to $995,099 (1988, $944,724).

5. Endowment funds

In 1987, the estate of the late John Bene established a fund to provide a postgraduate fellowship in the field of social forestry. During the same year, a former member of the Board of Governors of the Centre established a fund for applied or mission-oriented research.

	1989	1988
	$	$
Balance at the begining of the year	151,273	138,465
Interest income	13,919	12,658
Donations received	5,000	5,150
Expenses	(4,751)	(5,000)
Balance at the end of the year	165,441	151,273
John Bene	154,882	146,160
Governor	10,559	5,113
Total endowment funds	165,441	151,273

6. Accounts payable and accrued liabilities

	1989	1988
	$	$
Accrued liabilities—Projects	7,278,920	5,704,488
Accrued annual and other leave benefits	1,221,879	1,313,885
Other	3,872,897	2,403,288
	12,373,696	9,421,661

7. Contract research

Contract research relates to research conducted or managed by the Centre and to the V International Conference on AIDS organized by the Centre. Contract research is funded by other international agencies, the Canadian International Development Agency (CIDA), and other federal government entities.

Contract research expenses of $4,198,988 (1988, $2,107,575) include $2,431,480 (1988, $1,436,190) expended on behalf of CIDA. In addition, the Centre received $24,511 (1988, $56,489) as an administration fee from CIDA, which is included in investment and other income.

Contract research current liabilities of $2,532,328 (1988, $685,697) include $608,257 (1988, $332,537) held on behalf of CIDA.

INTERNATIONAL DEVELOPMENT RESEARCH CENTRE—*Concluded*

NOTES TO FINANCIAL STATEMENTS
AS AT MARCH 31, 1989—*Concluded*

8. Operating leases

The Centre has entered into various lease arrangements for office premises, equipment, and staff accommodation in Canada and in various countries. The total annual payments under such lease arrangements will be:

Year ending March 31	$
1990	5,808,867
1991	5,078,998
1992	4,568,377
1993	4,518,363
1994-1997	19,746,318
	39,720,923

9. Contractual commitments—Project grants and program development

The Centre is committed to make payments up to $104,400,000 during the next 4 years subject to funds being provided by Parliament and subject to compliance by recipients with the terms of project agreements. The Centre has also submitted formal grant offers to prospective recipients totalling $43,600,000 and is awaiting acceptance of these offers.

10. Comparative figures

The 1988 figures have been reclassified to conform to the statement presentation adopted in 1989.

SCHEDULE OF RESEARCH AND SUPPORT EXPENSES
FOR THE YEAR ENDED MARCH 31, 1989

SCHEDULE 1

	1989				1988
	Development research activities	Research related activities	Research operational support	Total	Total
	$	$	$	$	$
Programs					
Agriculture, food and nutrition sciences	21,911,128	5,064,039	1,206,258	28,181,425	27,133,926
Social sciences	10,097,831	3,530,678	944,776	14,573,285	14,893,828
Health sciences	8,784,650	2,916,391	999,033	12,700,074	11,817,968
Information sciences	8,268,304	2,713,555	1,041,304	12,023,163	12,504,431
Earth and engineering sciences	6,859,979	1,562,983	518,921	8,941,883	6,032,825
Fellowships and awards	5,664,225	874,305	315,723	6,854,253	6,856,112
Program-related activities					
Regional offices		1,304,172	7,175,783	8,479,955	6,767,428
Communications division	894,121	4,172,278	758,501	5,824,900	5,001,593
Special program activities	5,357,033	355,147		5,712,180	2,575,639
Development-research library		1,722,497		1,722,497	1,482,233
External liaison and relations	37,981	749,718	286,525	1,074,224	971,952
	67,875,252	24,965,763	13,246,824	106,087,839	96,037,935

SCHEDULE OF GENERAL MANAGEMENT EXPENSES
FOR THE YEAR ENDED MARCH 31, 1989 SCHEDULE 2

	1989	1988
	$	$
Salaries and benefits	6,117,923	6,523,077
Rent and utilities	1,546,887	1,460,730
Office and sundry	867,119	643,705
Travel and relocation	279,704	513,214
Governors' meetings	279,395	363,618
Depreciation and amortization	260,525	323,311
Professional and special services	283,168	270,587
Telecommunications	190,329	174,484
Working group expenses	19,041	62,258
Insurance	43,338	28,004
	9,887,429	10,362,988

SUMMARY PAGE

LAURENTIAN PILOTAGE AUTHORITY

MANDATE

To establish, operate, maintain and administer in the interests of safety an efficient pilotage service in the St. Lawrence River between Les Escoumins and the north end of the St. Lambert Lock, in the Saguenay River and in the Bay of Chaleur.

BACKGROUND

Established in 1972, the Authority provides pilotage services and has the power to make regulations, subject to the approval of the Governor in Council, which establish compulsory pilotage areas; prescribe the ships/classes of ships that are subject to compulsory pilotage, the circumstances under which compulsory pilotage may be waived and pilotage tariffs; and which cover the licensing of pilots and issuance of pilotage certificates. Tariffs must be fair and reasonable and sufficient to permit the Authority to operate on a self-sustaining financial basis.

CORPORATION DATA

HEAD OFFICE	Suite 1402 1080 Côte du Beaver Hall Montreal, Quebec H2Z 1S8
STATUS	— Schedule III, Part I — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Benoît Bouchard, P.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1972; pursuant to the *Pilotage Act* (R.S.C. 1985, c. P-14).
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Jacques Chouinard
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1988	**1987**	**1986**	**1985**
At the end of the year				
Total Assets	4.7	5.4	7.9	6.3
Obligations to the private sector	0.8	0.7	0.8	0.7
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	(0.9)	(0.6)	0.8	(0.3)
Cash from Canada for the year				
— budgetary	1.6	1.5	1.3	1.5
— non-budgetary	nil	nil	nil	nil

LAURENTIAN PILOTAGE AUTHORITY

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have examined the balance sheet of Laurentian Pilotage Authority as at December 31, 1988 and the statements of operations, contributed capital, deficit and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Authority as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Pilotage Act and regulations and the by-laws of the Authority.

Raymond Dubois, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
February 14, 1989

BALANCE SHEET AS AT DECEMBER 31, 1988

ASSETS	1988	1987
	$	$
Current		
Accounts receivable	3,898,007	4,535,593
Fixed (Note 3)		
Land, buildings, pilot boats and other facilities	2,195,061	2,210,378
Less: accumulated depreciation	1,421,930	1,306,693
	773,131	903,685
	4,671,138	5,439,278

LIABILITIES	1988	1987
	$	$
Current		
Bank indebtedness	848,821	712,595
Accounts payable	4,044,941	4,774,964
	4,893,762	5,487,559
Provision for employee termination benefits	652,000	597,000
	5,545,762	6,084,559
EQUITY (DEFICIENCY) OF CANADA		
Contributed capital	1,021,387	996,758
Deficit	(1,896,011)	(1,642,039)
	(874,624)	(645,281)
	4,671,138	5,439,278

Approved by the Authority:

JACQUES CHOUINARD
Chairman

YVON MATTE
Member

LAURENTIAN PILOTAGE AUTHORITY—*Continued*

STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1988

	1988	1987
	$	$
Revenues		
Pilotage charges	26,814,830	27,182,029
Rewards for rescuing ships in distress—Net	99,759	
Interest and other revenues	35,721	38,626
	26,950,310	27,220,655
Expenses		
Pilots' fees, salaries and benefits	23,241,402	23,157,963
Operating costs of pilot boats	2,644,229	2,671,772
Staff salaries and benefits	1,539,229	1,570,402
Professional services and members' allowances	387,199	666,214
Rentals	227,062	255,882
Transportation and travel	191,183	125,685
Communications	144,651	147,733
Utilities, material and supplies	86,579	60,010
Maintenance	71,529	24,635
Financing costs	33,396	61,654
Bad debts	10,380	30,119
Other	146,100	139,852
	28,722,939	28,911,921
Net loss for the year	1,772,629	1,691,266

STATEMENT OF CONTRIBUTED CAPITAL FOR THE YEAR ENDED DECEMBER 31, 1988

	1988	1987
	$	$
Balance at beginning of the year	996,758	971,621
Parliamentary appropriation to finance the previous year's acquisition of fixed assets	24,629	25,137
Balance at end of the year (Note 4)	1,021,387	996,758

STATEMENT OF DEFICIT FOR THE YEAR ENDED DECEMBER 31, 1988

	1988	1987
	$	$
Balance at beginning of the year	1,642,039	210,798
Net loss for the year	1,772,629	1,691,266
Parliamentary appropriation to finance the previous year's operating deficit	(1,518,657)	(256,775)
Services provided without charge by a government department		(3,250)
Balance at end of the year (Note 4)	1,896,011	1,642,039

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1988

	1988	1987
	$	$
Operating activities		
Net loss for the year	1,772,629	1,691,266
Non-cash items		
Depreciation	(173,884)	(176,359)
Decrease (increase) in the provision for employee termination benefits	(55,000)	7,000
Services provided without charge by a government department		(3,250)
	1,543,745	1,518,657
Decrease in accounts receivable	(637,586)	(1,899,977)
Decrease in accounts payable	730,023	960,336
	1,636,182	579,016
Investing activities		
Additions to fixed assets—Net	43,330	24,629
Financing activities		
Parliamentary appropriation	(1,543,286)	(281,912)
Bank indebtedness		
Increase for the year	136,226	321,733
Balance at beginning of the year	712,595	390,862
Balance at end of the year	848,821	712,595

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1988

1. Authority and activities

The Laurentian Pilotage Authority was established on February 1, 1972 under the Pilotage Act. Its objectives are to establish, operate, maintain and administer in the interests of safety an efficient pilotage service within certain designated Canadian waters in and around the Province of Quebec. The Act provides that pilotage tariffs shall be fair and reasonable and assure a revenue which, together with any revenue from other sources, is sufficient to permit the Authority to operate on a self-sustaining basis.

The Authority is a Crown corporation named in Part I of Schedule III to the Financial Administration Act.

2. Significant accounting policies

Fixed assets

Fixed assets obtained from Canada when the Authority was established were recorded at the then assigned values. Fixed assets purchased subsequently by the Authority are recorded at cost.

Fixed assets are depreciated using the straight-line method, at rates based on the estimated useful lives of the assets.

Contributed capital

The values assigned to the fixed assets obtained from Canada when the Authority was established and the net cost of fixed assets financed from parliamentary appropriations are recorded as contributed capital.

Parliamentary appropriations

Parliamentary appropriations received to finance the excess of expenditures over revenues are recorded in the year in which they are voted by Parliament, to contributed capital for that portion pertaining to the acquisition of fixed assets and to the deficit for that pertaining to operations. In this respect, operating expenditures include only those which require an outlay of funds.

LAURENTIAN PILOTAGE AUTHORITY—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988—*Concluded*

Pension plan

Employees participate in the Superannuation Plan administered by the Government of Canada. The employees and the Authority contribute equally to the cost of the Plan. This contribution represents the total liability of the Authority. Contributions in respect of current service and of admissible past service are expensed when paid. The terms of payment of past service contributions are set by the applicable purchase conditions, generally over the number of years of service remaining prior to retirement.

Employee termination benefits

On termination of employment, employees are entitled to certain benefits provided for under their collective agreements and their conditions of employment. The cost of these benefits is expensed in the year in which they are earned.

3. Fixed assets

Details of fixed assets are as follows:

	1988			1987
	Cost	Accumulated depreciation	Net	Net
	$	$	$	$
Land	9,300		9,300	9,300
Buildings	32,861	24,546	8,315	
Pilot boats	1,386,892	938,228	448,664	557,159
Furniture and fixtures	150,745	76,213	74,532	64,618
Communications equipment	147,482	102,905	44,577	44,765
Boarding facilities	216,689	148,146	68,543	83,780
Wharf improvements	169,033	67,613	101,420	109,872
Leasehold improvements	82,059	64,279	17,780	34,191
	2,195,061	1,421,930	773,131	903,685

Depreciation for the year is $173,884 ($176,359 in 1987).

The estimated useful lives for the principal categories of fixed assets for the purposes of calculating depreciation are as follows:

Buildings	10 years
Pilot boats	10 and 15 years
Furniture and fixtures	10 years
Communications equipment	10 years
Boarding facilities	10 and 20 years
Wharf improvements	20 years
Leasehold improvements	duration of the leases

4. Parliamentary appropriation

On February 14, 1989, the Treasury Board approved the inclusion of an appropriation of $1.6 million in the Supplementary Estimates for 1988-89 to cover the Authority's cash deficit for the year 1988.

5. Contingencies

In connection with its operations, the Authority is the claimant or defendant in certain pending claims and lawsuits. It is the opinion of Management that these actions will not result in any material liabilities to the Authority.

SUMMARY PAGE

MARINE ATLANTIC INC.

MANDATE

To acquire, establish, manage and operate a marine transportation service, a marine maintenance, repair and refit service, a marine construction business and any service or business related thereto.

BACKGROUND

The company provides marine ferry services to Atlantic Canada. As CN Marine Inc., it was a subsidiary of Canadian National Railway Company. Pursuant to the *Marine Atlantic Inc. Acquisition Authorization Act* (S.C. 1986, C. 36), which was proclaimed on June 27, 1986, the company's name was changed to Marine Atlantic Inc. and was added to Part I of Schedule III of the *Financial Administration Act*. At close of business on December 31, 1986, ownership was transferred to Her Majesty in right of Canada. In 1987 the corporation acquired the shares and operations of Coastal Transport Limited, which manages a ferry between New Brunswick ports and, as well, acquired the Newfoundland Dockyard Corporation, of St. John's. These subsidiaries operate autonomously. Customer revenues cover approximately one-third of Marine's operating expenditures.

CORPORATION DATA

HEAD OFFICE	100 Cameron Street Moncton, New Brunswick E1C 5Y6
STATUS	— Schedule III, Part I — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Benoît Bouchard, P.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1979; by the *Canada Business Corporations Act*. Status and ownership changed as of December 31, 1986, pursuant to S.C. 1986, C. 36.
CHIEF EXECUTIVE OFFICER	Terry W. Ivany
CHAIRMAN	Alan Scales
AUDITOR	Peat, Marwick, Mitchell & Co.

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1988	**1987***	**1986**	**1985**
At the end of the year				
Total Assets	335	335	339	361
Obligations to the private sector	4	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	(1)	(3)	(6)	284
Cash from Canada in the year				
— budgetary	138	127	126	156
— non-budgetary	nil	nil	nil	nil

* Beginning in 1987, the financial data are from consolidated financial statements.

MARINE ATLANTIC INC.

MANAGEMENT RESPONSIBILITIES FOR FINANCIAL REPORTING

The consolidated financial statements presented in this Annual Report are the responsibility of Marine Atlantic Inc.'s management. They have been approved by its Board of Directors.

Management prepared the consolidated financial statements in accordance with generally accepted accounting principles in Canada. The financial information contained in the Annual Report is consistent with the data presented in the financial statements.

Marine Atlantic Inc. maintains books of account, systems of information, systems of financial and management control, as well as a comprehensive internal audit program which provide reasonable assurance that accurate financial information is available, that assets are protected, that resources are managed efficiently, and that transactions are conducted in accordance with relevant legislation and the corporation's Articles of Incorporation and by-laws.

The Board of Directors oversees internal audit activities through its audit committee. The committee reviews matters related to accounting, auditing, internal control systems, and the financial statements and annual report of the independent external auditors.

D.J. Weaver
Vice-President Finance and Administration

T.G. Fox
Executive Vice-President

AUDITORS' REPORT

THE HONOURABLE BENOÎT BOUCHARD
MINISTER OF TRANSPORT

We have examined the consolidated balance sheet of Marine Atlantic Inc. as at December 31, 1988, and the consolidated statements of income, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1988, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We further report that, in our opinion, the transactions of the Corporation and its wholly-owned subsidiary that have come to our notice in the course of our examination of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the charters and by-laws of the Corporation and its wholly-owned subsidiaries.

Peat, Marwick
Chartered Accountants

Moncton, Canada
February 10, 1989

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1988
(with comparative figures for 1987)
(in thousands of dollars)

ASSETS	1988	1987
Current assets		
Cash	1,304	3,420
Accounts receivable	12,144	8,870
Due from the Government of Canada (Note 3)	7,200	
Inventory of fuel and supplies	5,166	6,541
Work in progress	705	701
Prepaid expenses	3,130	2,608
	29,649	22,140
Long-term receivables	280	245
Fixed assets and deferred charges (Note 4)	305,196	312,605
	335,125	334,990

LIABILITIES AND SHAREHOLDERS' DEFICIENCY	1988	1987
Current liabilities		
Bank indebtedness	3,714	
Accounts payable and accruals	25,085	22,580
Deferred government and other contract revenue		708
Deferred capital assistance	423	625
Note payable		424
	29,222	24,337
Long-term debt (Note 5)	8,065	8,065
Provision for capital assistance (Note 6)	298,494	305,369
SHAREHOLDERS' DEFICIENCY		
Capital stock		
Common shares without par value		
Authorized—Unlimited number		
Issued and fully paid—517,061 shares	258,530	258,530
Deficit	(259,186)	(261,311)
	(656)	(2,781)
Commitments and contingencies (Notes 7, 8 and 9)		
	335,125	334,990

See accompanying notes to consolidated financial statements.

On behalf of the Board:

P.W. OLAND
Director

R.J. TINGLEY
Director

MARINE ATLANTIC INC.—*Continued*

CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 1988
(with comparative figures for 1987)
(in thousands of dollars)

	1988	1987
Commercial revenue	66,436	62,697
Vessel repairs	6,587	5,290
	73,023	67,987
Operating expenses		
Marine Atlantic Inc.	177,558	173,223
Other services	19,527	13,223
Depreciation and amortization	20,491	20,563
	217,576	207,009
	144,553	139,022
Governement contract revenue	119,200	115,014
Subsidies and contracted services	6,332	5,113
Reduction in provision for capital assistance (Note 6)	20,225	20,363
Interest and other income	921	1,651
	146,678	142,141
Net income for the year (Note 10)	2,125	3,119

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1988
(with comparative figures for 1987)
(in thousands of dollars)

	1988	1987
Operating activities		
Net income for the year	2,125	3,119
Add (deduct)		
Items not affecting working capital	379	196
Net changes in non-cash working capital balances relating to operations	(8,031)	(1,510)
Deferred government and other contract revenue	(708)	(6,841)
Cash provided by (applied to) operations	(6,235)	(5,036)
Investing activities		
Additions to fixed assets and deferred charges	(13,358)	(15,143)
Net proceeds on disposal of fixed assets	129	4
Change in accounts payable—Fixed assets	910	(888)
Long-term receivables	(35)	(70)
Cash applied to investing activities	(12,354)	(16,097)
Financing activities		
Increase in long-term debt		8,657
Payments on note payable	(424)	(219)
Capital assistance	13,183	8,581
Cash provided by financing activities	12,759	17,019
Increase (decrease) in cash during the year	(5,830)	(4,114)
Cash, beginning of year	3,420	7,534
Cash (deficiency) end of year	(2,410)	3,420

Cash position is defined as cash less bank indebtedness.
See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF DEFICIT
YEAR ENDED DECEMBER 31, 1988
(with comparative figures for 1987)
(in thousands of dollars)

	1988	1987
Deficit, beginning of year	(261,311)	(264,430)
Net income for the year	2,125	3,119
Deficit, end of year	(259,186)	(261,311)

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1988
(in thousands of dollars)

1. Nature of operations and authority

Bill C-88, the Marine Atlantic Inc. Acquisition Authorization Act was proclaimed in 1986. In accordance with the Act, the Corporation's articles restrict the business that it may carry on to the acquisition, establishment, management and operation of a marine transportation service, a marine maintenance repair and refit service, a marine construction business and any service or business related thereto.

The Corporation's activities are also governed by agreements negotiated with the Government of Canada. The agreements provide, among other things for the Corporation to receive contract revenues from the Government of Canada to the extent that the estimated cost of providing ferry, coastal, terminal and water services is not recovered from estimated commercial revenues. In addition, and subject to parliamentary appropriations, amounts are received to finance the acquisition of fixed assets on a proven cash needs basis. The allocation of funds received in respect of contract revenue and the acquisition of fixed assets are subject to ministerial directive. As a result, the Corporation is economically dependent on the Government of Canada for the funds it receives through these arrangements.

2. Significant accounting policies

(a) Basis of presentation

In 1987, the Corporation acquired all of the outstanding shares of Coastal Transport Limited and Newfoundland Dockyard Corporation as of January 1, 1987 and March 31, 1987 respectively from CNR at the original cost to CNR, reduced by a cash contribution provided by the Government of Canada to effect the acquisition. Details of the acquisitions are as follows:

Current assets	3,334
Current liabilities	2,435
Working capital	899
Fixed assets, net of contribution by the Government of Canada of $23,596	7,791
	8,690
Debt assumed	8,657
Cash consideration	33

MARINE ATLANTIC INC.—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1988—*Continued*

These consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries. All intercompany transactions have been eliminated in these consolidated financial statements.

(b) Inventory of fuel and supplies

Inventories are valued at the lower of cost and replacement cost. Cost is determined on a weighted-average basis.

(c) Fixed assets

Fixed assets are carried at the cost to acquire them less accumulated depreciation. Due to a change in funding arrangements with the Corporation's shareholder in 1986, and as explained further in Note 6, a provision for those capital costs not considered recoverable from future revenue sources has been made.

(d) Depreciation

Depreciation is calculated at rates sufficient to write off fixed assets over their estimated useful lives generally on a straight line basis. The rates for significant classes of assets are as follows:

Vessels	5%
Terminal properties	2.5%
Equipment	10%, 12.5% and 25%

(e) Deferred charges

Deferred charges are accounted for at cost less accumulated amortization. They are being amortized to income on a straight line basis over periods not exceeding 60 months.

(f) Government contract revenue

Revenues received under contract to provide ferry service to Atlantic Canada are based on operating budgets approved by the Government of Canada for each year and are included in income in the year received to fund operating expenses in excess of commercial revenues.

Accruals for vacation pay and vessel refits are reduced to the extent that the amounts are reasonably assured of being paid and recovered from future contract revenues to be received from the Government of Canada.

(g) Capital assistance

Amounts received from the Government of Canada to finance the acquisition of fixed assets are recorded as deferred capital assistance in the year in which they are reasonably assured of being received, and are amortized to income on the same basis and over the same periods as the related fixed assets are depreciated. Deferred capital assistance as at December 31, 1988 represents capital assistance received before the related capital expenditure has been incurred.

(h) Foreign currency translation

Monetary assets and liabilities denominated in a foreign currency are translated at exchange rates in effect at the year end. Other assets and liabilities, revenues and expenses are translated using exchange rates in effect at the date of the transaction. Gains and losses arising on translation are included in net income.

(i) Employee compensation

(a) Pension plans

Substantially all of the Corporation's employees are covered by a defined benefit retirement plan. Pension costs related to benefits earned by employees in the current year are charged to income. The value of the accrued pension benefits for services rendered to December 31, 1988, of $219 million, has been determined by the Corporation's actuaries using best estimate assumptions provided by management. The pension fund assets of $189 million as at December 31, 1988 have been valued using market related values calculated on a basis whereby they will be adjusted to market values over a 5 year period.

The net deficiency at January 1, 1987 for the plan is being amortized on a straight line basis over the estimated average remaining service lives of the related employee group.

(b) Personal injury costs

Certain employees, retired as a result of injury, receive specified pension benefits. The Corporation recognizes the benefit payouts as an expense in the year paid.

(j) Vessel spare parts

The Company maintains spare parts for vessels in service. The cost of spare parts is charged to operations in the period the purchase is made.

3. Due from the Government of Canada

Under contractual terms contained in the Corporation's Capital Funding Agreement, the Corporation receives payments against its approved capital budget in installments calculated in reference to its monthly working capital deficiency or cash requirements. The amount receivable at December 31, 1988 represents a billing to the Government of Canada for funds previously approved under the Capital Funding Agreement.

4. Fixed assets and deferred charges

	1988			1987
	Cost	Accumulated depreciation and amortization	Net book value	Net book value
	(in thousands of dollars)			
Land	604		604	604
Vessels	289,131	80,537	208,594	223,206
Terminal properties	85,052	21,005	64,047	66,123
Equipment	22,321	10,208	12,113	9,702
Leasehold improvements	255	102	153	165
	397,363	111,852	285,511	299,800
Assets under construction	16,230		16,230	8,303
	413,593	111,852	301,741	308,103
Deferred charges	6,052	2,597	3,455	4,502
	419,645	114,449	305,196	312,605

MARINE ATLANTIC INC.—*Concluded*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1988—*Concluded*

5. Long-term debt

Government of Newfoundland debenture, with interest at the rate of 16.55% per annum and maturing in 2008, payable by subsidiary, Newfoundland Dockyard Corporation.

Under the terms of the debenture, payment of non-cumulative annual interest and principal are required to the extent that annual funds are available from Newfoundland Dockyard Corporation. To date, no payments have been required. At maturity, the unpaid balance of the principal amount of the debenture shall cease to be an obligation of the Newfoundland Dockyard Corporation.

6. Provision for capital assistance

In accordance with changes in 1986 in the contractual funding agreements, future depreciation and amortization on those fixed assets and deferred charges acquired prior to January 1, 1987, and which has substantially been financed through the issue of capital stock, were no longer recoverable under contracts with the Government of Canada. Management considers it unlikely that the Corporation will generate sufficient commercial revenue to recover these costs. Accordingly, in 1986 management provided $290.6 million (after net related deferred income taxes of $44.6 million) as an adjustment to retained earnings. This provision for capital assistance is reduced as the related assets are depreciated, amortized or upon their disposition.

7. Commitments and contingencies

(a) The Corporation has been directed by the Government of Canada to contract with a shipbuilder for a new vessel. The directive authorizes an expenditure of $130 million, subject to an economic price adjustment, of which the Corporation was required and has paid $5 million which is included in assets under construction. The balance will become payable by the Corporation upon delivery of the vessel, scheduled for 1989.

The total amount required to complete contracted fixed assets under construction at December 31, 1988 is estimated to be $129 million (1987—$130 million).

(b) The Corporation has received a claim of approximately $27 million including interest from the builder of one of the Corporation's vessels. The Corporation has filed a claim of approximately $14 million plus interest against the builder. An arbitration of this matter was completed in October, 1986 and the Corporation is awaiting the decision of the arbitrators. The final outcome of this matter cannot be determined at this time.

The Corporation is also in receipt of claims, an estimated $1.3 million of which are in litigation and another $2.6 million of which has not yet reached litigation; however any final determination as to the Corporation's exposure is presently unknown.

8. Operating leases

The Corporation makes use of property which is available through operating leases. The minimum lease payments are as follows:

1989	808
1990	756
1991	698
1992	688
1993	688
Total minimum lease payments	3,638

9. Vessel charter

The Corporation charters vessels to complement its existing fleet. The minimum vessel charter payments are as follows:

1989	2,121
1990	1,656
1991	732
	4,509

10. Income taxes

The Corporation has not been prescribed as a taxable Federal Crown Corporation under the Canadian Income Tax Act.

11. Change in accounting principles

Effective January 1, 1987, the Corporation adopted the new accounting recommendations of the Canadian Institute of Chartered Accountants for pension costs and obligations. This standard requires that for defined benefit plans, the difference between the accrued pension benefit and the value of the pension fund assets be measured at the date of implementation and amortized to income on a prospective basis. In addition, the cost of current pension benefits earned are included in income in the year the related employee service has been rendered. In the past, the company had included its pension cost on the same basis as it had funded the plan.

SUMMARY PAGE

MINGAN ASSOCIATES, LTD

MANDATE

To purchase land for eventual disposition.

BACKGROUND

Ownership of the corporation was purchased for Canada in 1983 to obtain the land and fishing rights it owns. Those assets are to become Indian reserve property and, as a first step, they have been transferred to the Crown in right of Canada. The further steps towards reserve status are underway now and the corporation is in the process of being dissolved.

CORPORATION DATA

HEAD OFFICE	10 Wellington Street 18th Floor Les Terrasses de la Chaudière Hull, Quebec K1A 0H4
STATUS	— Schedule III, Part I — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Pierre Cadieux, P.C., M.P.
DEPARTMENT	Indian Affairs and Northern Development
YEAR AND MEANS OF INCORPORATION	1983; by Order in Council P.C. 1983-4029; a corporation under Part 1A of the Quebec *Companies Act*.
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Vacant
FINANCIAL SUMMARY	This is not an operating company. Total assets have only nominal value.

MINGAN ASSOCIATES, LTD.

THE CORPORATION HAS NEGLIGIBLE ASSETS AND WAS INACTIVE
DURING THE REPORT PERIOD

SUMMARY PAGE

MONTREAL PORT CORPORATION

MANDATE

Administration, management and control of the Montreal harbour and all the works and property within the harbour previously under the jurisdiction of the Canada Ports Corporation or, prior to February 24, 1983, the National Harbours Board.

BACKGROUND

The Montreal Port Corporation was established on July 1, 1983, pursuant to the national ports policy to create local port corporations at the major ports and harbours previously under the centralized administration of the National Harbours Board and, since February 1983, the Canada Ports Corporation. The Port of Montreal is the largest on the east coast of Canada and handles more diversified traffic than any of the other ports previously administered by the Canada Ports Corporation. The port handled 22.2 million tonnes of cargo in 1987 including three million tonnes of grain and 5.7 million tonnes of containerized cargo.

CORPORATION DATA

HEAD OFFICE	Édifice du Port de Montréal Cité du Havre Aile No. 1 Montréal, Québec H3C 3R5
STATUS	— Schedule III, Part II — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Benoît Bouchard, P.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1983; letters patent of incorporation issued by the Minister of Transport pursuant to subsection 25(1) of the *Canada Ports Corporation Act.*
CHIEF EXECUTIVE OFFICER	Dominic J. Taddeo
CHAIRMAN	Ronald Corey
AUDITOR	Samson Bélair

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1988	1987	1986	1985
At the end of the period				
Total Assets	233.3	227.4	212.2	253.7
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	7.0	7.4*	140.7	141.1
Equity of Canada	208.8	199.0*	(47.6)	(2.3)
Cash from Canada in the period				
— budgetary**	nil	nil	nil	nil
— non-budgetary	nil	nil	nil	nil

* In 1987, $133.0 million loan principal outstanding was forgiven by Canada. That amount, with related interest forgiven, was added to the corporation's contributed capital.

** Takes no account of special contributions to Canada in 1986 of $55.0 million and a further $4.1 million in dividends declared in 1986 and $4.6 million declared in 1987.

MONTRÉAL PORT CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE BENOÎT BOUCHARD, P.C., M.P.
MINISTER OF TRANSPORT

We have examined the balance sheet of the Montréal Port Corporation as at December 31, 1988 and the statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Furthermore, in our opinion, the transactions of the Corporation that have come under our notice in the course of our examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, and with the charter and by-laws of the Corporation .

Samson Bélair
Chartered Accountants

Montréal, Canada
February 10, 1989

BALANCE SHEET AS AT DECEMBER 31, 1988
(in thousands of dollars)

ASSETS	1988	1987
Current		
Cash	692	632
Investments (Note 3)	28,871	36,025
Accounts receivable	9,176	10,596
Materials and supplies	872	859
	39,611	48,112
Investments (Note 3)	39,572	39,395
Fixed assets (Note 4)	153,618	139,489
Other assets	499	433
	233,300	227,429

LIABILITIES	1988	1987
Current		
Accounts payable and accrued liabilities (Note 5)	10,254	11,260
Grants in lieu of municipal taxes	2,386	5,000
	12,640	16,260
Accrued employee benefits	5,329	5,225
Loans from Canada (Note 6)	6,561	6,968
	11,890	12,193
EQUITY OF CANADA		
Contributed capital	183,569	183,569
Retained earnings	25,201	15,407
	208,770	198,976
	233,300	227,429

On behalf of the Board:

RONALD COREY
Chairman

DOMINIC J. TADDEO
General Manager and Chief Executive Officer

MONTRÉAL PORT CORPORATION—*Continued*

STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Revenue from operations	57,268	59,770
Operating and administrative expenses	39,385	38,530
Depreciation	9,838	8,926
Grants in lieu of municipal taxes	3,403	3,954
	52,626	51,410
Net income from operations	4,642	8,360
Investment income	7,968	7,529
Interest expense	(459)	(482)
	7,509	7,047
Net income before unusual item	12,151	15,407
Adjustment of grants in lieu of municipal taxes	1,915	
Net income	14,066	15,407

STATEMENT OF RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Balance at beginning	15,407	(7,712)
Elimination of deficit by a reduction in contributed capital		7,712
Net income	14,066	15,407
Dividend	(4,272)	
Balance at end	25,201	15,407

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Inflow (Outflow) of cash related to the following activities		
Operating		
Net income	14,066	15,407
Items not affecting cash		
Depreciation	9,838	8,926
Other	142	360
	24,046	24,693
Changes in non-cash operating working capital items	(1,950)	6,677
	22,096	31,370
Financing		
Repayment of current portion of loans from Canada	(407)	(383)
Increase (decrease) in accrued employee benefits	104	(58)
Dividends paid	(4,272)	(4,136)
	(4,575)	(4,577)
Investing		
Acquisition of long-term investments	(177)	(177)
Acquisition of fixed assets	(24,423)	(17,832)
Proceeds on disposal of fixed assets	51	
Receipt of other assets	30	26
Acquisition of other assets	(96)	
	(24,615)	(17,983)
Increase (decrease) in cash	(7,094)	8,810
Cash at beginning	36,657	27,847
Cash at end	29,563	36,657

Cash comprises cash and temporary investments.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1988

1. Status

The Montréal Port Corporation (the Corporation) was incorporated by letters patent in accordance with paragraph 6.2(1) of the Canada Ports Corporation Act on July 1, 1983.

Under Section 6.5 of the same Act, on the establishment of a local port corporation, all rights, obligations and liabilities of the Canada Ports Corporation in relation to that harbour shall become rights, obligations and liabilities of the local port corporation and the administration of all such property and works within the limits of that harbour as are administered by the Board, shall be deemed to have been transferred to the local port corporation, in this case the Montréal Port Corporation.

2. Significant accounting policies

Inventories

Materials and supplies are valued at the lower of cost and replacement cost. Cost is determined substantially on average cost.

Fixed assets and depreciation

Fixed assets are recorded at original cost with related accumulated depreciation transferred from Canada Ports Corporation; subsequent acquisitions are recorded at cost.

Depreciation on fixed assets is calculated according to the straight-line method for the full year, commencing in the year the asset becomes operational, using rates based on the estimated useful lives of the assets.

Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the plan are required from both the employees and the Corporation. These contributions represent the total liability of the Corporation and are recognized in the accounts on a current basis.

Grants in lieu of municipal taxes

Grants in lieu of municipal taxes are based on estimated municipal assessments adjusted in accordance with the Municipal Grants Act. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

Employee benefits

The Corporation accrues in its accounts annually the estimated liabilities for severance pay, annual leave, sick leave and overtime compensatory leave, which are payable to its employees in subsequent years under collective agreements, or in accordance with Corporation policy.

3. Investments

Funds are invested in Government of Canada direct securities and guaranteed by the Government of Canada which are shown at amortized cost, with premiums or discounts amortized over the periods to maturity. As at December 31, 1988, the market value of the short-term investments is equivalent to their amortized cost, and market value of long-term investments is $42,450,600 ($42,636,000 in 1987).

MONTRÉAL PORT CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1988—*Concluded*

4. Fixed assets

	1988				1987
	Depreciation rates	Cost	Accumulated depreciation	Net value	Net value
	%	(in thousands of dollars)			
Land		23,230		23,230	19,113
Dredging	2.5	15,876	12,366	3,510	3,738
Berthing structures	2.5	59,317	38,719	20,598	21,594
Buildings	2.5-10	68,508	30,436	38,072	38,583
Utilities	3.3-10	17,180	7,128	10,052	8,565
Roads and surfaces	2.5-10	51,901	14,349	37,552	26,900
Machinery and equipment	5-20	52,846	34,465	18,381	20,355
Office furniture and equipment	20	1,715	1,247	468	444
		290,573	138,710	151,863	139,292
Projects under construction		1,755		1,755	197
		292,328	138,710	153,618	139,489

5. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities are amounts for deferred revenues of $1,002,793 ($979,612 in 1987) and for the current portion of long-term liabilities of $407,056 ($383,111 in 1987).

6. Loans from Canada

	1988	1987
	(in thousands of dollars)	
Loans bearing interest at 6.25% with blended annual principal and interest repayment requirements of $842,561 and maturing in the year 2000	6,968	7,351
Less: current portion	407	383
	6,561	6,968

Principal repayment requirements over the next five years amount to:

	$
1989	407,056
1990	432,497
1991	459,528
1992	488,249
1993	518,765

7. Contingencies

Claims aggregating approximately $7,810,690 in respect of lawsuits, guarantees and damages allegedly suffered on the Corporation property and sundry legal matters in dispute have been made against the Corporation but are not reflected in the accounts. In the opinion of the Corporation, its position is defensible and the final outcome of such claims should not result in any material loss.

8. Commitments

(a) Contractual obligations for the completion, construction and purchase of fixed assets are estimated at $2,854,000.

(b) In accordance with a Government of Canada policy concerning payment of dividend, the Corporation would be required to pay a dividend, in respect of the 1988 fiscal year, based on a method of calculation using net income. This dividend payable before March 31, 1989, would amount to $3,338,095 and would be applied against retained earnings.

9. Related party transactions

In the ordinary course of business, the Corporation enters into transactions with related parties, including the Government of Canada, its agencies and other Crown corporations.

The Corporation derives revenues from related parties principally from grain warehousing and switching charges. The expenses paid to related parties are principally administration fees.

SUMMARY PAGE

NATIONAL ARTS CENTRE CORPORATION

MANDATE

To promote the development of the performing arts.

BACKGROUND

In 1969, the corporation was given the lease of the National Arts Centre complex for twenty years without charge. The corporation's revenues meet about 50 per cent of its cash requirements; payments from Canada cover the remainder. The corporation is a charitable organization for the purposes of the *Income Tax Act*.

CORPORATION DATA

HEAD OFFICE	53 Elgin Street Ottawa, Ontario K1P 5W1
STATUS	— exempt from the provisions of Divisions I to IV of Part X of the *Financial Administration Act* — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Marcel Masse, P.C., M.P.
DEPARTMENT	Communications
YEAR AND MEANS OF INCORPORATION	1966; by the *National Arts Centre Act*, (R.S.C. 1985, c. N-3).
CHIEF EXECUTIVE OFFICER	Yvon DesRochers
CHAIRMAN	Robert E. Landry
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) Financial years ending August 31.

	1988	1987	1986	1985
At the end of the period				
Total Assets	10.2	7.4	6.7	14.7
Obligations to the private sector*	4.2	2.7	2.4	2.8
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	1.1	1.6	1.1	negl.
Cash from Canada for the period				
— budgetary	18.7	14.9	16.9	15.3
— non-budgetary	nil	nil	nil	nil

* These are advance ticket sales.

NATIONAL ARTS CENTRE CORPORATION

AUDITOR'S REPORT

TO THE CHAIRMAN OF THE BOARD OF TRUSTEES
NATIONAL ARTS CENTRE CORPORATION

I have examined the balance sheet of the National Arts Centre Corporation as at August 31, 1988 and the statements of revenue and expenses, surplus and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at August 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Raymond Dubois, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
November 4, 1988

BALANCE SHEET AS AT AUGUST 31, 1988

ASSETS	1988	1987
	$	$
Current		
Cash	393,263	3,853
Short-term investments	3,594,124	331,321
Accounts receivable (Note 3)	1,819,804	2,291,153
Inventories (Note 4)	438,548	422,555
Programmes in progress	720,185	791,002
Prepaid expenses (Note 5)	216,546	214,100
	7,182,470	4,053,984
Fixed assets (Note 6)	2,995,502	3,395,117
	10,177,972	7,449,101

LIABILITIES	1988	1987
	$	$
Current		
Accounts payable and accrued liabilities (Note 7)	2,689,234	2,255,204
Deferred revenue (Note 8)	4,377,360	2,906,236
Deferred parliamentary appropriation Major capital projects (Note 9)	1,644,001	300,389
	8,710,595	5,461,829
Long-term obligation under capital lease	15,538	20,511
Provision for employee termination benefits	398,732	360,745
	414,270	381,256
	9,124,865	5,843,085
EQUITY OF CANADA		
Surplus	1,053,107	1,606,016
	10,177,972	7,449,101

Approved by Management:

YVON DES ROCHERS
Director General

RICHARD LUSSIER
Manager, Financial Service

Approved by the Board of Trustees:

ROBERT LANDRY
Chairman

MADELEINE PANACCIO
Vice-Chairman

NATIONAL ARTS CENTRE CORPORATION—*Continued*

STATEMENT OF REVENUE AND EXPENSES FOR THE YEAR ENDED AUGUST 31, 1988

	1988	1987
	$	$
Operating revenue		
Performing arts programmes (Schedule 1)	8,950,092	8,451,485
Commercial services (Schedule 2)	7,129,472	6,625,429
Rental of halls	780,944	650,311
Programme support services (Schedule 6)	514,349	465,517
Other	27,575	18,875
	17,402,432	16,211,617
Operating expenses		
Performing arts programmes (Schedule 1)	16,020,106	14,891,588
Commercial services (Schedule 2)	5,505,783	4,966,300
Operation of the buildings (Schedule 7)	5,055,285	4,634,233
Programme support services (Schedule 6)	3,742,939	3,121,329
Administrative services (Schedule 8)	2,763,454	2,831,254
Rental of halls	417,579	296,356
Board of trustees	225,980	207,784
	33,731,126	30,948,844
Excess of operating expenses over operating revenue	16,328,694	14,737,227
Other income		
Regional municipal grant	270,000	270,000
Interest on short-term investments	109,785	91,552
	379,785	361,552
Excess of expenses over revenue	15,948,909	14,375,675

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED AUGUST 31, 1988

	1988	1987
	$	$
Operating		
Excess of expenses over revenue	(15,948,909)	(14,375,675)
Items not affecting funds		
Depreciation and amortization	775,379	823,064
Provision for employee termination benefits	37,987	(108,533)
Loss on disposal of fixed assets	(26,873)	
Decrease (increase) of components of operating working capital other than cash	2,079,913	(101,768)
	(13,082,503)	(13,762,912)
Financing		
Parliamentary appropriations		
Operating	15,366,000	14,878,000
Major capital projects including interest earned	3,361,237	31,448
Long-term obligation under capital lease	(4,973)	20,511
	18,722,264	14,929,959
Investing		
Major capital projects	(1,638,657)	(571,113)
Additions to fixed assets	(348,891)	(1,120,952)
	(1,987,548)	(1,692,065)
Increase (decrease) in cash during the year	3,652,213	(525,018)
Cash and short-term investments at beginning of year	335,174	860,192
Cash and short-term investments at end of year	3,987,387	335,174

STATEMENT OF SURPLUS FOR THE YEAR ENDED AUGUST 31, 1988

	1988	1987
	$	$
Surplus at beginning of the year	1,606,016	1,096,191
Excess of expenses over revenue	(15,948,909)	(14,375,675)
	(14,342,893)	(13,279,484)
Parliamentary appropriation—Operating	15,396,000	14,885,500
Surplus at end of the year	1,053,107	1,606,016

NATIONAL ARTS CENTRE CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 1988

1. Objectives and operations

The objectives of the Corporation are: to operate and maintain the National Arts Centre; to develop the performing arts in the National Capital Region; and to assist the Canada Council in the development of the performing arts elsewhere in Canada.

In furtherance of its objectives, the Corporation may arrange for and sponsor performing arts activities at the Centre; encourage and assist in the development of performing arts companies resident at the Centre; arrange for or sponsor radio and television broadcasts and the showing of films in the Centre; provide accommodation at the Centre, on such terms and conditions as the Corporation may fix, for national and local organizations whose objects include the development and encouragement of the performing arts in Canada; and, at the request of the Government of Canada or the Canada Council, arrange for performances elsewhere in Canada by performing arts companies, whether resident or non-resident in Canada, and arrange for performances outside Canada by performing arts companies resident in Canada.

With a view to achieving the objectives, Her Majesty demised and leased the National Arts Centre building complex to the Corporation for a period of twenty years, expiring May 31, 1989. Under the terms of the lease, the Corporation is responsible for maintenance and operation of the building complex, but is not required to pay for the use of the complex.

2. Significant accounting policies

(a) Short-term investments

Short-term investments are carried at cost which approximates market value.

(b) Grants

Grants are recorded as revenue in the year in which the grantors make firm commitments to the Corporation.

(c) Inventories

Inventories are valued at the lower of cost and net realizable value for food, beverages and boutique materials or replacement cost for production materials.

(d) Programmes in progress

Direct costs, including advances to performing companies and artists, incurred prior to the end of the year for programmes in progress are deferred and charged to expenses in the year in which the programmes terminate. Indirect costs and common services not attributable to particular performances are charged to expenses in the year in which they are incurred.

(e) Fixed assets

Fixed assets used in the operations, other than the NAC complex, are recorded at cost. Depreciation and amortization are calculated on the straight-line method, as follows:

Building—L'Atelier	20 years
Equipment	5 and 7 years
Equipment under capital lease	5 and 7 years
Leasehold improvements	4 and 10 years

Extraordinary acquisitions and repairs to the NAC building complex are deducted from the parliamentary appropriation received for that purpose and are neither capitalized nor expensed.

(f) Deferred revenue

Revenue from tickets sold prior to the end of the year for programmes in progress is deferred and credited to revenue in the year in which the programmes terminate. Gift certificates and exchange vouchers not redeemed within three years of the year of their issuance are written off and credited to revenue. A percentage of those less than three years old is also credited to revenue.

(g) Operating expenses

Expenses relating to performing arts programmes and commercial services do not include costs relating to building and equipment maintenance, utilities and administrative services. Furthermore, the costs relating to furniture and equipment that are not capitalized are disclosed respectively as operation of the buildings expenses and commercial services.

(h) Pension plan

Employees of the Corporation participate in the Public Service Superannuation plan, administered by the Government of Canada. Contributions to the plan are required by both the employees and the Corporation. These contributions represent the Corporation's total obligation and are recorded as they become due.

(i) Employee termination benefits

Employees of the Corporation are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these benefits is recorded in the accounts as the benefits accrue to the employees under the respective terms of employment.

(j) Parliamentary appropriations

The parliamentary appropriation for operations, received during the period April 1 to August 31, is in respect of the Government of Canada's fiscal year ending on March 31 of the following year. The Corporation credits to surplus each month one-twelfth of the approved appropriation. Accordingly, of the amount received to August 31, the amount received which is in excess of 5/12ths of the appropriation is deferred to the following year. In the event that the amount received is less than 5/12ths of the appropriation, the difference is recorded as a receivable.

The parliamentary appropriation received for major capital projects is deferred until used. An amount equal to the cost of the projects incurred during the year is deducted from the deferred parliamentary appropriation.

(k) Capital lease

The equipment and related obligation for capital lease are recorded at an amount equal to the present value of future lease payments using an implicit lease interest rate of 11.47%. This obligation expires in 1991.

NATIONAL ARTS CENTRE CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 1988—*Continued*

3. Accounts receivable

	1988	1987
	$	$
Customer accounts	830,207	861,542
Allowance for bad debts	(21,205)	(19,474)
	809,002	842,068
Parliamentary appropriation—Operating (Note 10)	665,831	635,831
Grants	135,000	135,000
Tickets sold by a sales agency	104,931	195,090
Loans to musicians for the purchase of instruments	59,987	86,350
Accrued interest	27,586	3,899
Parliamentary appropriation— Major capital projects		378,968
Other	17,467	13,947
	1,819,804	2,291,153

4. Inventories

	1988	1987
	$	$
Production materials	211,547	226,254
Food, beverages and tobacco	180,956	150,079
Boutique	46,045	46,222
	438,548	422,555

5. Prepaid expenses

	1988	1987
	$	$
Supplies	157,850	147,236
Souvenirs and other items	31,933	34,285
Commissions		6,143
Miscellaneous	26,763	26,436
	216,546	214,100

6. Fixed assets

	1988			1987
	Cost	Accumulated depreciation and amortization	Net book value	Net book value
	$	$	$	$
Land	90,000		90,000	90,000
Building—L'Atelier	298,069	103,685	194,384	209,287
Equipment	4,230,461	3,054,708	1,175,753	1,403,189
Equipment under capital lease	28,750	5,750	23,000	28,750
Leasehold improvements	2,841,449	1,329,084	1,512,365	1,659,291
Uncompleted capital projects				4,600
	7,488,729	4,493,227	2,995,502	3,395,117

7. Accounts payable and accrued liabilities

	1988	1987
	$	$
Trade	1,699,357	1,193,023
Accrued salaries and annual leave	802,135	710,644
Payroll deductions and sales tax	187,742	351,537
	2,689,234	2,255,204

8. Deferred revenue

	1988	1987
	$	$
Tickets sold prior to the end of the year for programmes in progress	4,157,596	2,742,177
Unredeemed gift certificates and other	219,764	164,059
	4,377,360	2,906,236

9. Deferred parliamentary appropriation—Major capital projects

	1988	1987
	$	$
Deferred from the previous year	300,389	461,086
Received during the year	3,262,000	
Interest earned during the year	99,237	31,448
Expenses for the year	(2,017,625)	(192,145)
Deferred to the following year	1,644,001	300,389

10. Parliamentary appropriation—Operating

	1988	1987
	$	$
Receivable at beginning of year	635,831	628,331
Credited to surplus	15,396,000	14,885,500
Received during the year	(15,366,000)	(14,878,000)
Receivable at end of year	665,831	635,831

11. Commitments

As at August 31, 1988, commitments for operating and capital leases, with terms of more than one year, amounted to $1,077,001. Future minimum payments under these arrangements are payable as follows:

Year ending August 31	$
1989	890,742
1990	144,579
1991	24,999
1992	15,473
1993	1,208
	1,077,001

Furthermore, the NAC entered into an agreement with a ticket sales agency. The agreement extends to 1996. Payments are based on the number of tickets sold; there are no minimum payments.

NATIONAL ARTS CENTRE CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 1988—*Concluded*

12. Related party transactions

In addition to the rental of the NAC complex, provided free of charge by the Government of Canada, the Corporation receives audit services without charge from the Office of the Auditor General of Canada.

During the year, in the normal course of business, the Corporation incurred expenses totalling $730,204 (1987—$758,735) for utility, ground maintenance, snow removal and telephone services provided by other government departments and agencies.

13. Comparative figures

Certain figures for the year ended August 31, 1987 have been reclassified to conform to the presentation adopted for the year ended August 31, 1988.

SCHEDULE OF REVENUE AND EXPENSES—PERFORMING ARTS PROGRAMMES
FOR THE YEAR ENDED AUGUST 31, 1988 SCHEDULE 1

	Dance and Variety		Music		Theatre		Total	
	1988	1987	1988	1987	1988	1987	1988	1987
	$	$	$	$	$	$	$	$
Revenue								
Box office	3,759,461	4,080,583	2,041,972	1,511,782	2,155,263	1,943,172	7,956,696	7,535,537
Tours			122,550	176,530	272,153	3,202	394,703	179,732
Broadcasts			244,277	282,520			244,277	282,520
Co-productions					117,909	110,000	117,909	110,000
Sponsorships			65,700	124,500			65,700	124,500
Other	23,236	25,419	47,311	133,714	100,260	60,063	170,807	219,196
	3,782,697	4,106,002	2,521,810	2,229,046	2,645,585	2,116,437	8,950,092	8,451,485
Expenses								
Performers	2,691,989	2,911,278	4,387,726	4,022,875	1,700,141	1,199,263	8,779,856	8,133,416
Technical services	705,468	713,005	402,027	254,137	1,060,867	1,361,250	2,168,362	2,328,392
Advertising	616,292	583,694	606,571	492,521	598,193	486,033	1,821,056	1,562,248
Administration	307,384	376,199	440,221	546,514	691,798	642,352	1,439,403	1,565,065
Wardrobe			30,275	62	419,847	239,234	450,122	239,296
Other artistic services			45,926	63,508	268,813	287,718	314,739	351,226
Other production expenses	426,342	309,772	224,949	159,686	395,277	242,487	1,046,568	711,945
	4,747,475	4,893,948	6,137,695	5,539,303	5,134,936	4,458,337	16,020,106	14,891,588
Excess of expenses over revenue	964,778	787,946	3,615,885	3,310,257	2,489,351	2,341,900	7,070,014	6,440,103

SCHEDULE OF REVENUE AND EXPENSES—
COMMERCIAL SERVICES
FOR THE YEAR ENDED AUGUST 31, 1988 SCHEDULE 2

	1988	1987
	$	$
Revenue		
Restaurants (Schedule 3)	5,221,658	4,687,185
Garage (Schedule 4)	1,748,711	1,771,467
Boutique (Schedule 5)	159,103	166,777
	7,129,472	6,625,429
Expenses		
Restaurants (Schedule 3)	4,827,788	4,315,031
Garage (Schedule 4)	503,218	471,543
Boutique (Schedule 5)	174,777	179,726
	5,505,783	4,966,300
Excess of revenue over expenses	1,623,689	1,659,129

NATIONAL ARTS CENTRE CORPORATION—*Continued*

SCHEDULE OF REVENUE AND EXPENSES—RESTAURANTS
FOR THE YEAR ENDED AUGUST 31, 1988

SCHEDULE 3

	1988			1987		
	Food	Beverage	Total	Food	Beverage	Total
	$	$	$	$	$	$
Sales						
Le Café	1,678,843	736,611	2,415,454	1,346,324	638,596	1,984,920
Catering	1,142,988	530,461	1,673,449	1,003,536	470,005	1,473,541
Bars	631	429,366	429,997		431,704	431,704
External Affairs	93,701		93,701	110,945		110,945
Green Room	125,188		125,188	120,510		120,510
Total sales	3,041,351	1,696,438	4,737,789	2,581,315	1,540,305	4,121,620
Cost of goods consumed	1,232,805	530,993	1,763,798	1,014,047	506,654	1,520,701
Gross profit	1,808,546	1,165,445	2,973,991	1,567,268	1,033,651	2,600,919
Other revenue						
Recovery of costs—Catering and External Affairs			413,740			474,478
Other			70,129			91,087
Total other revenue			483,869			565,565
Total gross profit and other revenue			3,457,860			3,166,484
Operating and administrative expenses						
Salaries, wages and employee benefits			2,235,242			1,970,553
Supplies and equipment rental			381,491			400,033
Advertising and promotion			102,503			90,051
Depreciation and amortization			85,648			77,613
Professional services			71,510			92,233
Repairs and maintenance			38,279			56,251
Credit card commission			34,182			27,745
Music and entertainment			28,015			32,702
Other			87,120			47,149
Total expenses			3,063,990			2,794,330
Excess of revenue over expenses			393,870			372,154

SCHEDULE OF REVENUE AND EXPENSES—
GARAGE
FOR THE YEAR ENDED AUGUST 31, 1988

SCHEDULE 4

	1988	1987
	$	$
Revenue		
Parking	1,748,711	1,771,467
Expenses		
Salaries, wages and employee benefits	420,238	399,081
Depreciation and amortization	24,578	16,375
Supplies	20,853	22,438
Repairs and maintenance	19,240	20,953
Other	18,309	12,696
	503,218	471,543
Excess of revenue over expenses	1,245,493	1,299,924

SCHEDULE OF REVENUE AND EXPENSES—
BOUTIQUE
FOR THE YEAR ENDED AUGUST 31, 1988

SCHEDULE 5

	1988	1987
	$	$
Revenue		
Sales	159,103	166,777
Expenses		
Cost of goods sold	112,036	103,445
Gross margin	47,067	63,332
General and administration		
Salaries, wages and employee benefits	49,631	62,586
Amortization	2,677	2,677
Advertising and display	1,265	2,774
Other	9,168	8,244
	62,741	76,281
Total expenses	174,777	179,726
Excess of expenses over revenue	15,674	12,949

NATIONAL ARTS CENTRE CORPORATION—*Concluded*

SCHEDULE OF REVENUE AND EXPENSES— PROGRAMME SUPPORT SERVICES FOR THE YEAR ENDED AUGUST 31, 1988 SCHEDULE 6

	1988	1987
	$	$
Revenue		
House program advertising	251,764	277,677
Box Office service charges	104,858	89,031
Other	157,727	98,809
	514,349	465,517
Expenses		
Salaries, wages and employee benefits	2,611,541	1,857,730
Advertising and promotion	359,258	320,979
Office expenses	262,178	171,853
Commissions and service charges	170,556	415,597
Professional services and expenses	144,748	105,417
Warehouse rent	101,106	159,368
Other	93,552	90,385
	3,742,939	3,121,329
Excess of expenses over revenue	3,228,590	2,655,812

SCHEDULE OF EXPENSES— OPERATION OF THE BUILDINGS FOR THE YEAR ENDED AUGUST 31, 1988 SCHEDULE 7

	1988	1987
	$	$
Salaries, wages and employee benefits	2,015,134	1,835,594
Utilities	1,031,031	994,062
Repairs and maintenance to buildings and equipment	956,276	818,125
Depreciation and amortization	662,476	726,399
Furniture and equipment	167,577	97,507
Professional services and expenses	133,056	105,461
Other	89,735	57,085
	5,055,285	4,634,233

SCHEDULE OF EXPENSES— ADMINISTRATIVE SERVICES FOR THE YEAR ENDED AUGUST 31, 1988 SCHEDULE 8

	1988	1987
	$	$
Salaries, wages and employee benefits	1,978,066	1,974,398
Professional services and expenses	239,616	106,675
Insurance	128,301	122,056
Office expenses	124,344	162,712
Repairs and maintenance	72,381	73,303
Travel and duty entertainment	65,452	41,392
Telecommunications	36,845	112,634
Advertising and promotion	32,180	17,633
Office rent	2,265	128,407
Other	84,004	92,044
	2,763,454	2,831,254

SUMMARY PAGE

NATIONAL CAPITAL COMMISSION

MANDATE

To prepare plans for and assist in the development, conservation and improvement of the National Capital Region; to organise sponser and promote public activities in the Region. In 1987-88, the Commission became responsible for the management and maintenance of the Official Residences located in the National Capital Region.

BACKGROUND

Funding from Canada to the Commission is usually budgetary funding. The Commission's own revenues meet about 17 per cent of its outlays.

CORPORATION DATA

HEAD OFFICE	161 Laurier Avenue West Ottawa, Ontario K1P 6J6
STATUS	— Schedule III, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Elmer MacKay, P.C., M.P.
DEPARTMENT	Public Works
YEAR AND MEANS OF INCORPORATION	1958; by the *National Capital Act* (R.S.C. 1985, c. N-4). Canada has owned this corporation since 1899 with the creation then of the Ottawa Improvement Commission (1899-1927), succeeded by the Federal District Commission (1927-1958).
CHAIRMAN	Jean Pigott
CHIEF EXECUTIVE OFFICER	Graeme Kirby
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) Financial years ending March 31.

	1989	1988	1987 (restated)	1986
At the end of the period				
Total Assets	324.4	319.7	298.3	306.5
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	282.8	285.8	269.4	284.4
Cash from Canada in the period				
— budgetary	91.3	103.0	59.0*	73.4*
— non-budgetary	nil	nil	nil	(26.3)

* Net of sales proceeds and surplus (in 1986-87, $3.5 million; in 1985-86, $7.6 million) which were paid to Canada.

NATIONAL CAPITAL COMMISSION

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the National Capital Commission are the responsibility of management and have been approved by the members of the Commission. The financial statements have been prepared by management in accordance with generally accepted accounting principles. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the financial statements.

Management has developed and maintains books of account, records, financial and management controls and information systems. These are designed to provide reasonable assurance that the assets are safeguarded and controlled and that transactions are in accordance with Part X of the Financial Administration Act and regulations as well as the National Capital Act and by-laws of the Commission. Internal audits are conducted to assess these systems and practices.

The members of the Commission carry out their responsibilities for the financial statements principally through an Audit Committee which consists of members of the Commission only. The Audit Committee meets periodically with management as well as with the internal and external auditors to discuss the results of audit examinations with respect to the adequacy of internal accounting controls and to review and discuss financial reporting matters. The external and internal auditors have full access to the Audit Committee, with and without management being present.

The Commission's external auditor, the Auditor General of Canada, has examined the financial statements. He submits his report to the Minister of Public Works who is responsible for the National Capital Commission.

Jean E. Pigott
Chairman
R. Curry Wood
Vice-President, Controller

AUDITOR'S REPORT

TO THE MINISTER OF PUBLIC WORKS

I have examined the balance sheet of the National Capital Commission as at March 31, 1989 and the statements of operations, equity and changes in cash resources for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Commission as at March 31, 1989 and the results of its operations and the changes in its cash resources for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Commission that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the National Capital Act, and by-laws of the Commission.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
June 16, 1989

BALANCE SHEET AS AT MARCH 31, 1989
(in thousands of dollars)

ASSETS	1989	1988
Current		
Cash and short-term deposits	10,796	1,570
Accounts receivable		
Due from Canada		16,421
Federal government departments and agencies	597	577
Tenants and others	1,238	1,444
Operating supplies, small tools and nursery stock	828	817
Prepaid expenses	2,517	2,102
	15,976	22,931
Land, buildings and equipment (Note 3)	308,463	296,799
	324,439	319,730

LIABILITIES	1989	1988
Current		
Accounts payable and accrued liabilities	25,666	22,899
Holdbacks and deposits from contractors and others	2,216	2,208
	27,882	25,107
Long-term		
Accrued employee termination benefits	5,434	5,630
Unsettled expropriations of property	865	842
Contributions to other levels of government	7,476	2,328
	13,775	8,800
EQUITY		
Equity of Canada	282,782	285,823
	324,439	319,730

Approved by the Commission:

JEAN E. PIGOTT
Chairman

IAN A. NUTE
Commissioner

NATIONAL CAPITAL COMMISSION—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1989
(in thousands of dollars)

	1989	1988
Expenses (Note 4)		
Planning and development	21,161	18,794
Real asset management	57,359	51,741
Public activities	16,501	16,010
Administration	18,242	15,812
	113,263	102,357
Revenues		
Property	10,006	10,628
Interest	1,177	795
Net gain on disposal of land, buildings and equipment	5,502	1,726
Other	2,225	2,585
	18,910	15,734
Net cost of operations	94,353	86,623
Parliamentary appropriations	91,312	103,008
Less: appropriations used to acquire land, buildings and equipment	29,802	24,656
	61,510	78,352
Excess of net cost of operations over parliamentary appropriations	32,843	8,271

STATEMENT OF EQUITY
FOR THE YEAR ENDED MARCH 31, 1989
(in thousands of dollars)

	1989	1988
Balance at beginning of year	285,823	269,438
Excess of net cost of operations over parliamentary appropriations	(32,843)	(8,271)
Appropriations to acquire land, buildings and equipment	29,802	24,656
Balance at end of year	282,782	285,823

STATEMENT OF CHANGES IN CASH RESOURCES
FOR THE YEAR ENDED MARCH 31, 1989
(in thousands of dollars)

	1989	1988
Operating activities		
Excess of net cost of operations over parliamentary appropriations	(32,843)	(8,271)
Items not involving cash		
Depreciation	12,361	9,718
Net gain on disposal of land, buildings and equipment	(5,502)	(1,726)
Proceeds on disposal of land, buildings and equipment	11,279	2,554
Net change in non-cash working capital balances related to operations	18,956	(14,162)
Net change in long-term liabilities	4,975	2,373
Cash provided by (used in) operating activities	9,226	(9,514)
Investing and financing activities		
Acquisition of land, buildings and equipment	(29,802)	(24,656)
Parliamentary appropriations to acquire land, buildings and equipment	29,802	24,656
Increase (decrease) in cash	9,226	(9,514)
Cash and short-term deposits		
Beginning of year	1,570	11,084
End of year	10,796	1,570

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989

1. Authority and objectives

The National Capital Commission was established in 1958 by the National Capital Act. The Commission is an agent Crown corporation without share capital named in Part I of Schedule III to the Financial Administration Act. The objects and purposes of the Commission as stated in the Act are to:

(a) prepare plans for and assist in the development, conservation and improvement of the National Capital Region in order that the nature and character of the seat of the Government of Canada may be in accordance with its national significance; and

(b) organize, sponsor or promote such public activities and events in the National Capital Region as will enrich the cultural and social fabric of Canada, taking into account the federal character of Canada, the equality of status of official languages of Canada and the heritage of the people of Canada.

The Commission is also responsible for the management and maintenance of the Official Residences located in the National Capital Region.

2. Significant accounting policies

(a) Land, buildings and equipment

Land, buildings and equipment are generally recorded at historical cost. Property acquired at nominal cost or by donation is recorded at market value at time of acquisition except for properties of historical significance whose market value cannot be reasonably determined. These are recorded at nominal value. Property acquired by exchange is recorded at the carrying value of the assets disposed of in the transaction.

NATIONAL CAPITAL COMMISSION—*Continued*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989—*Continued*

(b) Depreciation

Depreciation of assets is charged to operations in equal annual amounts based on the cost of the assets, their estimated useful life and their final salvage value. Useful life of assets is estimated as follows:

Buildings	20 years
Parkways, roadways and bridges	25 years
Park landscaping and improvement	25 years
Machinery and equipment	7 to 15 years
Office furniture and equipment	5 years
Vehicles	4 to 7 years
Antiques and works of art	10 years

(c) Operating supplies, small tools and nursery stock

Operating supplies and small tools are carried at cost. Nursery stock is valued at estimated replacement cost less an allowance for overhead, balling and packaging expenses.

(d) Pension plan

The Commission's employees participate in the Public Service Superannuation Plan, which is administered by the Government of Canada. Contributions to the Plan are made by both the employees and the Commission on an equal basis. These contributions represent the total pension obligations of the Commission and are recognized in the accounts on a current basis.

(e) Employee termination benefits

Severance pay generally accrues to employees over their service period, and is payable on their separation or retirement. The liability for these benefits is recorded in the accounts as the benefits accrue to the employees.

(f) Parliamentary appropriations

Parliamentary appropriations for operating expenditures, for contributions to other levels of government and other authorities and for grants are used to offset the net cost of operations. Parliamentary appropriations used to acquire land, buildings and equipment are credited to equity.

3. Land, buildings and equipment

	1989			1988
	Historical cost	Accumulated depreciation	Net book value	Net book value
	(in thousands of dollars)			
Land and buildings				
Greenbelt	55,848	16,779	39,069	39,403
Parkways	101,544	37,493	64,051	51,515
Parks	49,534	16,624	32,910	32,553
Bridges and approaches	27,782	14,083	13,699	14,001
Historical sites	22,095	9,703	12,392	8,588
Recreational facilities	16,330	7,134	9,196	8,953
Rental properties	135,328	13,297	122,031	127,251
Unsettled expropriations	1,036		1,036	1,230
Administrative and service buildings	13,199	6,819	6,380	6,654
	422,696	121,932	300,764	290,148
Less: provision for transfers*	1,838		1,838	1,838
	420,858	121,932	298,926	288,310
Equipment				
Machinery and equipment	4,949	2,405	2,544	2,692
Office furniture and equipment	11,173	6,957	4,216	3,101
Vehicles	4,063	1,688	2,375	2,246
Antiques and works of art	868	466	402	450
	21,053	11,516	9,537	8,489
	441,911	133,448	308,463	296,799

*Provision for transfers pertains to property to be transferred in accordance with agreements with the Province of Quebec. This includes lands to be given free of charge for approaches to the MacDonald-Cartier Bridge, and for the transfer for $1 of lands to be used as a right-of-way for Highway 550.

4. Summary of expenses by major classification

	1989	1988
	(in thousands of dollars)	
Payroll and related costs	43,121	38,677
Goods and services	30,614	29,032
Grants in lieu of taxes	12,254	11,380
Other contributions	14,913	13,550
Depreciation	12,361	9,718
	113,263	102,357

NATIONAL CAPITAL COMMISSION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989—*Concluded*

5. Major commitments

(a) The Commission is committed to contribute to the Province of Quebec, one-half of the cost of a road network within the Quebec portion of the National Capital Region. The Commission's remaining commitment to be paid over future years is estimated at $80 million but is only payable if funding is approved by the Treasury Board of Canada. The Treasury Board has directed that expenditures for the Quebec road network be limited to $131.7 million pending Cabinet consideration of the program. As of March 31, 1989, payments have totalled $127.2 million. Unpaid billings from the Province of Quebec amounted to $16.5 million and are recorded in the accounts of the Commission.

(b) The Province of Quebec has expropriated certain lands in the City of Hull on behalf of the Commission. An amount of $1.25 million will be payable in exchange for appropriate title documents.

(c) The Commission has received Governor in Council authority to lease 121.4 ha (300 acres) of its property to a third party for 99 years. Rent will be paid in one payment at the beginning of the lease and will be equivalent to the market value of the property based on development guidelines imposed by the Commission. The authority restricts the use of the revenue from this transaction to acquisition of environmentally sensitive lands. Closing of the lease transaction is dependent upon completing negotiations.

(d) The Commission has entered into agreements for computing services and leases of equipment and office space. Minimum annual payments under these agreements are approximately as follows:

	(in thousands of dollars)
1989-90	3,526
1990-91	2,930
1991-92	793
1992-93	453
	7,702

(e) The Commission has entered into contracts for construction works estimated to cost approximately $5.6 million. Payments under these contracts are expected to be made in 1989-90.

6. Contingencies

(a) Claims

Claims and potential claims have been made against the Commission totalling approximately $35 million for alleged damages and other matters. The final outcome of these claims is not determinable and accordingly these items are not recorded in the accounts. However, in the opinion of management, the position of the Commission is defensible. Settlements, if any, resulting from the resolution of these claims will be accounted for in the year in which the settlements occur.

(b) Agreement with the Province of Ontario

In 1961, the Commission entered into an agreement whereby the Province of Ontario established and maintains 2,761 hectares (6,820 acres) of forest. When the agreement expires in 2011, or is terminated, the Commission will reimburse the Province for the excess of expenses over revenues, or the Province will pay the Commission the excess of revenues over expenses. At March 31, 1988, cumulative expenses exceeded cumulative revenues by $1.1 million, and are not reflected in the accounts of the Commission.

7. Related party transactions

(a) Transfer of Land

In June 1988, the Commission, with the approval of the Governor in Council transferred the land on which the National Gallery of Canada was constructed to the Department of Public Works for no consideration. This land was recorded at a nominal carrying value in the records of the Commission.

(b) Transfer of other properties

(1) The Commission has permitted the Canada Museums Construction Corporation Inc. to undertake the construction of the Canadian Museum of Civilization on Commission lands. Although the Commission is not responsible for funding and managing this project, or reporting its costs, it may have title to the construction works. However, in keeping with the intent of this project, the Commission is not claiming ownership of the work in progress or the completed building. Accordingly, the value of the construction costs is not included in the records of the Commission or in its financial statements, nor is any liability for municipal grants in lieu of taxes relating to the land and building.

(2) The Commission is in the process of transferring the lands in question to Public Works Canada in exchange for other properties. The estimated carrying value of these lands is $11.7 million. The financial statements of the Commission as at March 31, 1989 do not include this pending transaction because the authority to effect this transaction has not yet been obtained.

(c) Agent for property sales

Public Works Canada acts as an agent for the Commission with respect to the sale of properties which are surplus to the Commission's needs. Fees charged are based on standard rates set by Public Works Canada.

(d) Service agreement

The Commission has entered into an agreement with Public Works Canada whereby the latter will, with respect to the Official Residences, provide certain property services at rates established with the Commission and approved by the Treasury Board of Canada.

SUMMARY PAGE

PACIFIC PILOTAGE AUTHORITY

MANDATE

To establish, operate, maintain and administer, in the interests of safety, an efficient pilotage service within designated waters in and around British Columbia.

BACKGROUND

Established in 1972, the Authority provides pilotage services and has the power to make regulations, subject to the approval of the Governor in Council, which establish compulsory pilotage areas; prescribe the ships/classes of ships that are subject to compulsory pilotage, the circumstances under which compulsory pilotage may be waived and pilotage tariffs; and which cover the licensing of pilots and issuance of pilotage certificates. Tariffs must be fair and reasonable and sufficient to permit the Authority to operate on a self-sustaining financial basis.

CORPORATION DATA

HEAD OFFICE	300-1199 West Hastings Street Vancouver, British Columbia V6E 4G9
STATUS	— Schedule III, Part I — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Benoît Bouchard, P.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1972; pursuant to the *Pilotage Act* (R.S.C. 1985, c. P-14).
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Robert J. Smith
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1988	1987	1986	1985
At the end of the year				
Total Assets	4.5	4.5	4.4	5.0
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	negl.	negl.	0.1
Equity of Canada	2.8	2.6	2.6	2.8
Cash from Canada for the year				
— budgetary	nil	nil	nil	nil
— non-budgetary	nil	nil	nil	nil

PACIFIC PILOTAGE AUTHORITY

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have examined the balance sheet of Pacific Pilotage Authority as at December 31, 1988 and the statements of operations, retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Authority as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Pilotage Act and regulations and the by-laws of the Authority.

Raymond Dubois, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
February 6, 1989

BALANCE SHEET AS AT DECEMBER 31, 1988
(in thousands of dollars)

ASSETS	1988	1987
Current		
Cash and short-term deposit	1,150	1,102
Accounts receivable	2,531	2,536
Prepaid expenses	54	33
	3,735	3,671
Property and equipment (Note 3)	717	827
	4,452	4,498

LIABILITIES	1988	1987
Current		
Accounts payable and accrued liabilities	1,287	1,541
Long-term		
Accrued employee termination benefits	410	338
	1,697	1,879
EQUITY OF CANADA		
Contributed capital	806	806
Retained earnings	1,949	1,813
	2,755	2,619
	4,452	4,498

Approved by the Authority:

R. SMITH
Chairman

J.A. HORNE
Member

PACIFIC PILOTAGE AUTHORITY—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Revenues		
Pilotage charges	27,092	26,161
Interest and other income	141	120
	27,233	26,281
Expenses		
Contract pilots' fees	18,828	18,629
Operating costs of pilot boats	2,740	2,626
Transportation and travel	2,633	2,368
Staff salaries and benefits	1,220	1,070
Pilots' salaries and benefits	775	716
Depreciation (Note 3)	224	133
Professional and special services	170	167
Rentals	164	158
Utilities, materials and supplies	122	135
Computer software costs	104	138
Communications	91	99
Repairs and maintenance	19	17
Other	7	15
	27,097	26,271
Net income for the year	136	10

STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Appropriated		
Balance at beginning and end of the year	500	500
Unappropriated		
Balance at beginning of the year	1,313	1,303
Net income for the year	136	10
Balance at end of the year	1,449	1,313
	1,949	1,813

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Operating activities		
Net income for the year	136	10
Items not affecting cash		
Depreciation	224	133
(Gain) loss on sale of property and equipment	(7)	10
Employee termination benefits	72	(89)
Change in operating components of working capital	(270)	(91)
Cash provided from (required for) operating activities	155	(27)
Investing activities		
Additions to property and equipment	(123)	(139)
Proceeds from disposal of equipment	16	9
Financing activities		
Decrease in long-term obligations under capital lease		(30)
Increase (decrease) in cash	48	(187)
Cash and short-term deposits at beginning of the year	1,102	1,289
Cash and short-term deposits at end of the year	1,150	1,102

PACIFIC PILOTAGE AUTHORITY—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988

1. Authority and objectives

The Pacific Pilotage Authority was established on February 1, 1972 pursuant to the Pilotage Act. The objectives of the Authority are to establish, operate, maintain and administer a safe and efficient pilotage service within designated Canadian waters. The Act further provides that the tariffs of pilotage charges shall be fair and reasonable and consistent with providing a revenue, together with any revenue from other sources, sufficient to permit the Authority to operate on a self-sustaining financial basis.

Pilotage services on the Fraser River are provided by employee pilots and in other coastal waters under a contract with a local licensed pilots' company.

The Authority is a Crown corporation named in Part I of Schedule III (formerly Schedule C) to the Financial Administration Act and is not subject to any income taxes.

2. Significant accounting policies

Capital leases

Under the terms of certain lease agreements the Authority assumes the rights and obligations of ownership. These leases are treated as capital leases. An asset and an obligation are recorded at an amount equal to the market value of the asset at the beginning of the lease. The obligation is reduced each year by the principal portion of the lease payments and the interest portion is charged to expense.

Depreciation

Depreciation of property and equipment is calculated on a straight-line basis and is based on the estimated useful lives of the assets as follows:

Buildings	20 years
Pilot boats	20 years
Equipment—Communication and other	10 years
—Computer	5 years
Leasehold improvements	15 years

Employee termination benefits

Employees are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these payments is recorded in the accounts as the benefits accrue to the employees.

Contributed capital

Amounts representing the values assigned to property and equipment transferred from Canada in 1972 and the cost of any property and equipment financed from parliamentary appropriations are shown as contributed capital.

Retained earnings

Amounts are appropriated from time to time by the Authority to provide for extraordinary costs arising from renewal or acquisition of fixed assets and for contingencies.

Pension plan

All employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. These contributions represent the total liability of the Authority and are recognized in the accounts on a current basis.

3. Property and equipment

	1988	1987
	(in thousands of dollars)	
Buildings	40	40
Pilot boats	1,201	1,142
Equipment—Communication and other	627	632
—Computer	292	275
Leasehold improvements	58	34
	2,218	2,123
Accumulated depreciation	1,501	1,296
	717	827

A change in the estimated service life of computer equipment from 10 years to 5 years has resulted in an additional charge of $96,271 to depreciation expense in the current year.

4. Commitments

The Authority has a long-term lease obligation for office accommodation aggregating $848,320 for the period to December 31, 1999 at a base annual rent of $77,120. The obligation also calls for pro-rata share of operating costs estimated at $45,000 for 1989.

The Authority has an operating lease agreement for the services of a manned pilot boat with a guaranteed annual rental of $58,000 until December 31, 1990, plus operating expenses. Until that date, the Authority holds an option to purchase the boat at a price to be determined if the option is exercised.

SUMMARY PAGE

PETRO-CANADA

MANDATE

To explore for, research, develop, produce and distribute hydrocarbons and other types of fuel and energy, and to engage or invest in ventures related thereto.

BACKGROUND

Petro-Canada's growth was principally from its acquisition, in succession, of Atlantic Richfield, Pacific Petroleums, Petrofina, BP Canada and Gulf Canada rights and other assets but, as well, major new investments have been made by the corporation in conventional crude oil and gas exploration in Western Canada and in frontier drilling. It owns a significant share in the promising Hibernia and Terra Nova offshore fields and in the Syncrude tar-sands and Wolf Lake in situ oil sands projects. No federal funds have been invested in Petro-Canada since 1984.

CORPORATION DATA

HEAD OFFICE	150-6th Avenue, S.W. Calgary, Alberta T2P 3E3
STATUS	— Schedule III, Part II — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Jake Epp, P.C., M.P.
DEPARTMENT	Energy, Mines and Resources
YEAR AND MEANS OF INCORPORATION	1975; by the *Petro-Canada Act* (R.S.C. 1985, c. P-11).
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Wilbert H. Hopper
AUDITOR	Arthur Andersen & Co.

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1988	**1987**	**1986**	**1985**
At the end of the year				
Total Assets	8,611	8,453	8,139	8,846
Obligations to the private sector	2,010	1,894	1,740	2,045
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	3,915	3,872	3,711	3,642
Cash from Canada in the year				
— budgetary	nil	nil	nil	(50)*
— non-budgetary	nil	nil	nil	nil

* Dividend to Canada.

PETRO-CANADA

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The financial statements have been prepared by management in accordance with generally accepted accounting principles appropriate in the circumstances. Management is responsible for the other information in the Annual Report, which is consistent, where applicable, with that contained in the financial statements. Management is also responsible for installing and maintaining a system of internal control to provide reasonable assurance that reliable financial information is produced. The Corporation has an internal audit department whose functions include reviewing the system of internal control to ensure that it is adequate and functioning properly.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee of the Board, a majority of which is composed of directors who are not employees of the Corporation. The committee meets with management, the internal auditors and the external auditors to satisfy itself that responsibilities are properly discharged and to review the financial statements.

The external auditors conduct an independent examination, in accordance with generally accepted auditing standards, and express their opinion on the financial statements. Their examination includes a review and evaluation of the Corporation's system of internal control and appropriate tests and procedures to provide reasonable assurance that the financial statements are presented fairly. The external auditors have full and free access to the Audit Committee of the Board.

AUDITORS' REPORT

TO THE HONOURABLE JAKE EPP, P.C., M.P.
MINISTER, ENERGY, MINES AND RESOURCES CANADA
HOUSE OF COMMONS

We have examined the consolidated balance sheet of Petro-Canada (incorporated by Special Act of the Parliament of Canada) as at December 31, 1988 and the related consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1988 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, we have examined the transactions of the Corporation and its consolidated wholly-owned subsidiaries that came to our notice in the course of the above mentioned examination, to determine whether they were in accordance with Part X of the Financial Administration Act, the regulations, the charter and by-laws of the Corporation and its consolidated wholly-owned subsidiaries and any directives given to the Corporation pursuant to the Act. Our examination of these transactions was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. In our opinion, these transactions were, in all significant respects, in compliance with the authorities specified.

Arthur Andersen & Co.
Chartered Accountants

Calgary, Canada
February 20, 1989

CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 1988
(in millions of dollars)

ASSETS	1988	1987
Current assets		
Cash and short-term deposits	84	10
Accounts receivable	734	892
Inventories (Note 2)	560	721
Income taxes recoverable	36	4
Prepaid expenses	41	53
	1,455	1,680
Investments (Note 3)	539	509
Property, plant and equipment, net (Note 4)	6,534	6,197
Deferred charges (Note 5)	83	67
	8,611	8,453

LIABILITIES AND SHAREHOLDER'S EQUITY	1988	1987
Current liabilities		
Short-term notes payable	968	313
Accounts payable and accrued liabilities	765	864
Current portion of long-term debt	6	6
	1,739	1,183
Long-term debt (Note 6)	1,036	744
Deferred credits (Note 7)	213	190
Deferred income taxes	1,708	1,633
Redeemable preferred shares (Note 8)		831
Shareholder's equity (Note 9)	3,915	3,872
	8,611	8,453

Approved on behalf of the Board:

W.H. HOPPER
Director

JOCELYNE PELCHAT
Director

PETRO-CANADA—*Continued*

CONSOLIDATED STATEMENT OF EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1988
(in millions of dollars)

	1988	1987
Revenue		
Operating	4,669	4,982
Investment and other income	132	97
	4,801	5,079
Expenses		
Crude oil and product purchases	1,939	2,214
Marketing, general and administrative	891	819
Producing and refining	777	727
Depreciation, depletion and amortization	428	412
Federal sales and other taxes	383	394
Interest on long-term debt	71	59
Other interest	60	14
	4,549	4,639
Earnings before undernoted items	252	440
Provision for income taxes (Note 10)		
Deferred	74	164
Current	52	63
	126	227
Earnings before extraordinary item and dividends on redeemable preferred shares	126	213
Extraordinary item (Note 11)	22	
Net earnings before dividends on redeemable preferred shares	104	213
Dividends on redeemable preferred shares (Note 8)	10	41
Net earnings after dividends on redeemable preferred shares	94	172

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1988
(in millions of dollars)

	1988	1987
Retained earnings (deficit) at beginning of year	(289)	(450)
Net earnings before dividends on redeemable preferred shares	104	213
Dividends on redeemable preferred shares	(10)	(41)
Exchange adjustment on redemption of redeemable preferred shares	(51)	(11)
Retained earnings (deficit) at end of year	(246)	(289)

CONSOLIDATED STATEMENT OF CHANGES
IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1988
(in millions of dollars)

	1988	1987
Internally generated cash		
Working capital provided from operations (Note 12)	624	784
Proceeds from sale of property, plant and equipment	22	46
Advances on future natural gas deliveries	(23)	(11)
Internally generated cash from operations	623	819
Decrease (increase) in operating working capital (Note 13)	203	(244)
	826	575
Investment activities		
Expenditures on property, plant and equipment	799	483
Increase in investments, net	52	142
Increase in deferred charges, net	18	1
	869	626
Financing activities and dividends		
Increase in short-term notes payable, net	655	313
Proceeds from issue of long-term debt	361	
Redemption of redeemable preferred shares	(883)	(102)
Dividends on redeemable preferred shares	(10)	(41)
Reduction of long-term debt	(6)	(21)
	117	149
Increase in cash	74	98
Cash and short-term deposits (deficiency) at beginning of year	10	(88)
Cash and short-term deposits at end of year	84	10

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1988
(in millions of dollars)

1. Summary of significant accounting policies

(a) Basis of consolidation

The consolidated financial statements include the accounts of Petro-Canada, an agent of Her Majesty in right of Canada, and of all subsidiary companies ("the Corporation") except Canertech Inc., which is excluded for the reason described in Note 3.

The excess of the consideration paid for the shares of subsidiaries over the underlying net book values at the dates of acquisition is attributed to the related assets acquired and is amortized over the life of these assets.

(b) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of crude oil, refined products and merchandise is determined on a "first-in , first-out" basis.

(c) Investments

The Corporation accounts for investments in companies over which it has significant influence on the equity method. Other long-term investments are accounted for on the cost method.

PETRO-CANADA—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1988—*Continued*

(d) Property, plant and equipment

The Corporation accounts for its investment in oil and gas properties on the full cost method whereby all costs relating to the exploration for and development of oil and gas reserves are capitalized. Such costs include those related to lease acquisitions, geological and geophysical activities, lease rentals on non-producing properties, drilling both productive and non-productive wells and overhead related to exploration and development. Separate cost centres have been established for each country in which the Corporation has an interest in oil and gas properties. The Corporation applies a "ceiling test" to each of its producing oil and gas cost centres to ensure that such costs do not exceed the total of the estimated future net revenues from production of proven reserves, the unimpaired costs of certain projects in Canadian frontier areas and the unimpaired costs of unevaluated properties. The estimate of future net revenues is based upon prices and operating costs in effect at the balance sheet date. In addition a consolidated ceiling test provides for future administrative overhead, financing costs and income taxes.

Costs are accumulated separately for the Syncrude Project, producing in situ and other oil sands leases. Overburden removal costs relating to oil sands which will be mined in future years are deferred and are charged to earnings when the related oil sands are mined.

Substantially all of the Corporation's exploration and production activities are conducted jointly with others. Only the Corporation's proportionate interest in such activities is reflected in the financial statements.

The interest cost of debt attributable to the construction of major new facilities is capitalized during the construction period.

(e) Depreciation, depletion and amortization

Costs incurred in producing oil and gas cost centres, other than unimpaired costs of certain projects in Canadian frontier areas and of unevaluated properties, and costs incurred on the Syncrude Project and producing in situ oil sands leases are depreciated or depleted separately on the unit of production method based on estimated proven recoverable oil and gas reserves before royalties. For purposes of calculating depreciation and depletion, natural gas production and reserves are converted to equivalent units of crude oil based on the relative energy content of each commodity.

Costs incurred in non-producing oil and gas cost centres and other oil sands leases are subject to review for impairment. Any impairment is charged to earnings. When exploration proves to be successful, and economic viability has been established, the unimpaired balance is depleted on the unit of production method when production commences.

Depreciation of other plant and equipment is provided on either the unit of production method or the straight line method as appropriate. Straight line depreciation rates are based on the estimated service lives of the related assets.

(f) Income taxes

The Corporation makes full provision for income taxes deferred as the result of claiming depreciation, exploration, development and other costs for income tax purposes which differ from the related amounts charged to earnings.

(g) Translation of foreign currency

Current assets, except inventories and prepaid expenses, current liabilities and long-term debt are translated at rates of exchange in effect at the balance sheet date. Long-term assets, inventories, prepaid expenses, deferred income taxes, redeemable preferred shares and revenue and expense items are translated at rates of exchange in effect at the respective transaction dates. Depreciation, depletion and amortization expense reflects rates of exchange in effect when the related assets were acquired.

The resulting exchange gains or losses are included in earnings, except for unrealized exchange gains or losses arising on translation of long-term debt, which are deferred and amortized over the remaining term of the debt, and realized losses on redemption of redeemable preferred shares, which are charged directly to retained earnings.

Foreign operations are integrated with the Corporation's other activities and are translated in the manner described above.

2. Inventories

	1988	1987
Crude oil, refined products and merchandise	495	657
Materials and supplies	65	64
	560	721

3. Investments

	1988	1987
At equity		
Westcoast Energy Inc.	269	219
Petro-Canada Centre	189	188
Sedpex Inc.	18	38
Other	22	20
At cost		
Mortgages and other investments	41	44
	539	509

Westcoast Energy Inc. ("Westcoast")

At December 31, 1988 the Corporation held approximately 37% (1987—31%) of the outstanding common shares of Westcoast with a quoted market value of $280 million (1987—$250 million).

Petro-Canada Centre

The Corporation holds 50% of a joint venture which owns Petro-Canada Centre, an office complex in Calgary. The Corporation has entered into a long-term lease for use of a portion of the complex and, as at December 31, 1988, has guaranteed $135 million of long-term debt related to the facility.

Sedpex Inc.

The Corporation holds 50% of the outstanding common shares of Sedpex Inc., a company which owns a semi-submersible drilling vessel.

Canertech Inc. ("Canertech")

The accounts of Canertech, a wholly-owned subsidiary company, have been excluded from consolidation because a formal plan exists to dispose of the investment in the subsidiary. In response to a directive by the Government of Canada, the Corporation incorporated Canertech in 1981 to develop alternate energy sources. At that time the Government indicated its intention of purchasing the Corporation's investment at cost and establishing Canertech as an independent Crown corporation. The Corporation is proceeding with the implementation of a Government directive to bring about the dissolution of Canertech. The Corporation's investment in Canertech is carried in the accounts at its original cost of one dollar.

PETRO-CANADA—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1988—*Continued*

4. Property, plant and equipment

	1988			1987	Capital Expenditures	
	Cost	Accumulated depreciation, depletion and amortization	Net	Net	1988	1987
Natural resources						
Oil and gas						
Canada	5,657	2,194	3,463	3,250	441	239
Foreign						
— Producing	67	49	18	19	3	
— Non-producing	133	106	27	17	23	12
Oil sands						
Syncrude project	751	153	598	577	42	44
Producing in situ	221	21	200	115	91	30
Other oil sands	212	212			5	5
Natural gas liquids	210	89	121	128	4	2
Other	105	81	24	29	2	4
	7,356	2,905	4,451	4,135	611	336
Refining and marketing	2,495	550	1,945	1,921	159	122
Other property, plant and equipment	299	161	138	141	29	25
	10,150	3,616	6,534	6,197	799	483

At December 31, 1988, $3,250 million (1987—$3,074 million) of Canada oil and gas net costs were subject to depreciation and depletion.

Capital expenditures for the year include $12 million (1987—$7 million) of capitalized interest expense.

5. Deferred charges

	1988	1987
At cost		
Oil sands overburden removal costs	39	40
Less portion related to oil sands to be mined within one year	17	16
	22	24
Deferred pension funding	27	13
At amortized cost		
Deferred financing costs	17	14
Other	17	16
	83	67

6. Long-term debt

	Maturity	1988	1987
In Canadian dollars			
8.25% unsecured notes	1993	11	11
In United States dollars			
7.75% unsecured notes (U.S. $13 million)	1993	15	18
LIBOR less 0.8% unsecured notes (U.S. $125 million)	1995	149	162
9% unsecured notes (U.S. $26 million)	1995	31	39
7.25% unsecured debentures (U.S. $200 million)	1996	239	260
9.50% unsecured debentures (U.S. $200 million)	2003	239	
8.25% unsecured debentures (U.S. $200 million)	2016	239	260
9.70% unsecured debentures (U.S. $100 million)	2018	119	
		1,042	750
Less current portion		6	6
		1,036	744

Repayment of long-term debt

The minimum repayment of long-term debt in each of the next five years is as follows: 1989—$6 million, 1990—$6 million, 1991—$7 million, 1992—$7 million, 1993—$24 million.

7. Deferred credits

	1988	1987
Advances on future natural gas deliveries	95	118
Translation adjustment on long-term debt	88	33
Long-term liabilities	30	39
	213	190

PETRO-CANADA—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1988—*Continued*

8. Redeemable preferred shares

During 1988 a subsidiary redeemed 7,092,983 shares (1987—779,000 shares) for a consideration of U.S. $709 million (1987—U.S. $78 million). The 1988 redemption comprised virtually all the remaining outstanding shares.

9. Shareholder's equity

Authorized capital

(a) 71,188 common shares with a par value of one hundred thousand dollars each, and

(b) Preferred shares issued to the Government of Canada provided that the amount of such shares together with any loans received, and outstanding, from the Consolidated Revenue Fund of the Government of Canada is not in excess of one billion dollars. These shares have a par value of one dollar each, are redeemable at par at the option of the Corporation, carry no stated rate of dividend and are non-cumulative.

Issued (to the Government of Canada)

	Number of shares	1988	1987
Common shares	31,883	3,188	3,188
Preferred shares	972,771,853	973	973
Total capital at beginning and end of year		4,161	4,161
Deficit at end of year		(246)	(289)
		3,915	3,872

10. Income taxes

The provision for income taxes of $126 million (1987—$227 million) represents an effective rate of 50% (1987—51.6%) on earnings before income taxes of $252 million (1987—$440 million). The computation of the provision, which requires adjustment to earnings before income taxes for non-taxable and non-allowable items, is as follows:

	1988	1987
Earnings before income taxes	252	440
Add (deduct)		
Royalties and other payments to provincial governments	135	160
Federal allowances		
Resource allowance	(107)	(144)
Tax depletion	(38)	(36)
Non-deductible depreciation, depletion and amortization	88	99
Non-taxable gains	(14)	(10)
Equity in earnings of affiliates	(21)	(25)
Other	4	(8)
Earnings as adjusted before income taxes	299	476
Canadian Federal income tax at 42.4% (1987—46.6%) applied to earnings as adjusted	127	222
Provincial and other income taxes, net of federal abatement	4	9
Provincial income tax rebates	(5)	(4)
Provision for income taxes	126	227

11. Extraordinary item

Due to uncertain dayrates and low utilization of offshore drilling rigs, the Corporation has written down the carrying value of its investment in Sedpex Inc. (Note 3). The amount of this charge to earnings is $22 million including related income taxes of $2 million.

12. Working capital provided from operations

	1988	1987
Earnings before extraordinary item and dividends on redeemable preferred shares	126	213
Add (deduct)		
Depreciation, depletion and amortization	428	412
Deferred income taxes	74	164
Equity earnings, net of dividends received	2	(4)
Other	(6)	(1)
	624	784

13. Decrease (increase) in operating working capital

	1988	1987
Accounts receivable	158	(18)
Inventories	161	(168)
Income taxes recoverable	(32)	16
Prepaid expenses	12	(18)
Accounts payable and accrued liabilities	(99)	(69)
Other	3	13
	203	(244)

Operating working capital is comprised of working capital other than cash and short-term deposits, short-term notes payable and current portion of long-term debt.

14. Pension plans

The Corporation's plans are defined benefit plans with the benefits generally based upon years of service and average salary during the final years of employment. They are funded by the Corporation based upon the advice of an independent actuary.

Plan status as at December 31:

	1988	1987
Actuarial value of assets	445	394
Pension obligation	427	382
Net pension asset	18	12

The net pension asset is amortized to earnings over the expected average remaining service life of the employees covered by the plans, which is currently 13 years.

Pension funding and expense amounted to $32 million (1987—$32 million) and $16 million (1987—$17 million) respectively.

15. Related party transactions

Transactions with the Government of Canada and its agencies are in the normal course of business and are therefore on the same terms as those accorded to non-related parties.

16. Segmented information

The Corporation operates in two business segments:

Natural resources, comprising: exploration, development, production, transportation and marketing activities for crude oil, natural gas, field liquids, sulphur and oil sands; and extraction of liquids from natural gas.

PETRO-CANADA—*Continued*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1988—*Concluded*

Refining and marketing, comprising: purchase and sale of crude oil; refining crude oil into oil products; and distribution and marketing of these and other purchased products.

Financial information by business segment is presented in the following table as though each segment were a separate business entity. Inter-segment transfers of products, which are accounted for at market value, are eliminated on consolidation. Corporate and other includes investment income, interest expense and unallocated general corporate revenues and expenditures. Corporate and other assets are principally cash and short-term deposits, investments in other companies and general corporate assets.

	Natural resources		Refining and marketing		Corporate and other		Consolidated	
	1988	1987	1988	1987	1988	1987	1988	1987
Revenue								
Sales to customers and other revenues	473	571	4,245	4,461	83	47	4,801	5,079
Inter-segment sales	516	567						
Segment revenue	989	1,138	4,245	4,461	83	47		
Earnings								
Operating earnings before depreciation, depletion and amortization	415	623	336	327	60	(25)	811	925
Depreciation, depletion and amortization	(280)	(266)	(142)	(139)	(6)	(7)	(428)	(412)
Interest					(131)	(73)	(131)	(73)
Provision for income taxes	(87)	(195)	(92)	(93)	53	61	(126)	(227)
Earnings (loss) before extraordinary item and dividends on redeemable preferred shares	48	162	102	95	(24)	(44)	126	213
Capital expenditures								
Property, plant and equipment	611	336	159	122	29	25	799	483
Investments			1		51	142	52	142
Deferred charges	(1)	(8)	2	(4)	17	13	18	1
	610	328	162	118	97	180	869	626
Total assets	4,729	4,431	3,101	3,436	781	586	8,611	8,453
Capital employed	4,509	4,207	2,585	2,815	752	567	7,846	7,589

17. Comparative figures

Certain reclassifications have been made to the 1987 comparative figures to conform with the current year's presentation.

18. Commitments and contingencies

(a) Commitments

The Corporation has leased property and equipment under various long-term operating leases for periods up to 2008. The minimum annual rentals for non-cancellable operating leases are estimated at $53 million in 1989, $52 million in 1990, $45 million in 1991, $45 million in 1992, $39 million in 1993 and $19 million per year thereafter until 2008.

(b) Contingencies

The Corporation is involved in litigation and claims associated with normal operations. Management is of the opinion that any resulting settlements would not materially affect the financial position of the Corporation.

PETRO-CANADA—*Continued*

APPENDIX

CANERTECH INC.

AUDITORS' REPORT

TO THE SHAREHOLDER OF CANERTECH INC.

We have examined the Balance Sheet of Canertech Inc. (a wholly-owned subsidiary of Petro-Canada) as at December 31, 1988 and the Statements of Income and Deficit and Changes in Financial Position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

Burke, Newman & Co.
Chartered Accountants

Winnipeg, Canada
February 10, 1989

BALANCE SHEET DECEMBER 31, 1988
(in thousands of dollars)

ASSETS	1988	1987	LIABILITIES AND SHAREHOLDER'S DEFICIT	1988	1987
Cash and term deposits	10,388	8,572	Accrual for dissolution costs (Notes 4 and 8)	348	459
Other investments (Note 2)	4,013	4,668	Advances from the Government of Canada (Note 5)	29,550	29,550
Income taxes recoverable (Note 3)	150	150	Shareholder's deficit (Note 6)	(15,347)	(16,619)
	14,551	13,390		14,551	13,390

The accompanying notes are an integral part of this Balance Sheet.

Approved on Behalf of the Board:

F.B. GRANT
Director

L.A. HIPFNER
Director

PETRO-CANADA—*Continued*

APPENDIX—*Continued*

CANERTECH INC.—*Continued*

STATEMENT OF INCOME AND DEFICIT
YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Provision for loss on disposition of Canertech Conservation Inc.	(100)	(600)
Interest income net of divestiture and management costs	1,372	1,168
Net income for the year	1,272	568
Deficit, beginning of year	(16,619)	(17,187)
Deficit, end of year	(15,347)	(16,619)

The accompanying notes are an integral part of this Statement.

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Cash provided by (used for) operating activities		
Net income for the year	1,272	568
Less: items not affecting cash		
—Provision for loss on disposition of Canertech Conservation Inc.	100	600
—Interest implicit in debentures receivable	(490)	(481)
	882	687
Other non-cash items		
Reduction in accrual for dissolution costs	(111)	(398)
	771	289
Cash provided by investment activities		
Payments received on notes and debentures	1,045	150
Increase in cash and term term deposits	1,816	439
Cash and term deposits, beginning of year	8,572	8,133
Cash and term deposits, end of year	10,388	8,572

The accompanying notes are an integral part of this Statement.

Order-in-Council

On December 21, 1984, the Government of Canada issued Order-in-Council P.C. 1984-4187 which was subsequently replaced by P.C. 1986-2311 dated October 9, 1986 whereby the parent corporation was authorized to bring about the dissolution of Canertech Inc. and to replace federal Crown ownership of Canertech Conservation Inc., a wholly-owned subsidiary, with other ownership.

1. Significant accounting policy

Consistent with the terms of the Order-in-Council, these financial statements have been prepared on the liquidation basis. Assets have been presented at their estimated net realizable values before costs of dissolution.

2. Other investments

As a result of the disposition of the corporation's investment in Canertech Conservation Inc., the corporation acquired a non-interest bearing debenture receivable. The balance of $5,750,000 is repayable in 46 monthly payments of $125,000 from January 1, 1989 to October 1, 1992 and has been discounted for the implicit interest of approximately $1,426,000 in 1988 and $950,000 in 1987.

This agreement contains an adjustment clause based on the realizability of certain contracts having a total value of $1.3 million. Management's estimate of the potential loss in this regard is $1,100,000 as of December 31, 1988 ($1,000,000 in 1987) and accordingly these amounts have been accrued in these financial statements.

The corporation holds a minority interest in Valera Electronics Inc. and several loans receivable acquired as a result of previous disposition of investments. These investments are recorded at their estimated net realizable values before costs of disposition.

The portion of the above debenture receivable and notes receivable due in 1989 is approximately $1,700,000 ($1,040,000 in 1988).

3. Income taxes recoverable

This amount represents the recovery of certain Investment Tax Credits.

The benefits resulting from any future income tax reductions have not been recorded in these financial statements.

4. Accrual for dissolution costs

The accrual for dissolution costs represents management's anticipation of the costs to complete the disposition of assets and the settlement of liabilities. Should the corporation not conclude the disposition of investments as currently contemplated by management, additional costs may be incurred.

5. Advances from the Government of Canada

The advances are without requirement for interest or repayment. Management anticipates that the corporation will be unable to repay the obligation in its entirety and the Government of Canada will absorb the company's deficit upon dissolution. The corporation has reduced these advances by the $2,250,000 due from Energy, Mines and Resources Canada.

PETRO-CANADA—*Concluded*

APPENDIX—*Concluded*

CANERTECH INC.—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988—*Concluded*

The amount of $2,250,000 arose from the corporation's participation in the Societe Biosyn (Reg'd) joint venture. Prior to the above mentioned Order-in-Council of December 21, 1984, the corporation was to be reimbursed for these amounts by Energy, Mines and Resources Canada. It is anticipated that the ultimate settlement of these amounts will require the direction of the Treasury Board of the Government of Canada and will involve a set-off against the advances from the Government of Canada.

6. Share capital

Authorized—An unlimited number of common shares
Issued and fully paid—1 common share for $1

7. Contingencies

The corporation is a defendant in legal actions where amounts are claimed in pleadings filed against the corporation. Such amounts total approximately $77 million. Management and legal counsel are of the opinion that based upon the facts as presently known to management and legal counsel, the better view is that these actions will not succeed. Accordingly, no provision for such claims has been made in the accounts of the company.

8. Related party transaction

The parent company has provided management services to the corporation in the amount of $25,367 in 1988 ($18,477 in 1987). The amounts of the costs which remain unpaid as at December 31, 1988 and 1987 are $25,367 and $18,477 respectively.

SUMMARY PAGE

PETRO-CANADA INTERNATIONAL ASSISTANCE CORPORATION

MANDATE

To assist oil-importing developing countries to exploit their own hydrocarbon resources; to provide development assistance directly to Third World countries; and to be available as an executing agent for other institutions such as the World Bank.

BACKGROUND

The first meeting of the board of directors took place January 25, 1982. Since then, the corporation has been active in several countries, applying Canadian technology and expertise with Canadian official development assistance funding in the search for hydrocarbons and in related studies, and in providing technical assistance and personnel training to those countries. This is a non-profit, government-funded organization. By Order in Council P.C. 1985-2957, pursuant to s. 86(2) of the FAA, the corporation was directed to report on its affairs as if it is a parent Crown corporation.

CORPORATION DATA

HEAD OFFICE	Constitution Square Suite 1601 360 Albert Street Ottawa, Ontario K1R 7X7
STATUS	— not an agent of Her Majesty — a wholly-owned subsidiary of Petro-Canada; it has been directed by Order in Council (PC 1985-2957) to report its affairs as if it were a parent Crown corporation.
APPROPRIATE MINISTER	The Honourable Jake Epp, P.C., M.P.
DEPARTMENT	Energy, Mines and Resources
YEAR AND MEANS OF INCORPORATION	1981; under the *Canada Business Corporations Act.*
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Peter M. Towe
AUDITOR	Arthur Andersen & Co.

FINANCIAL SUMMARY ($ million) The financial year was the calendar year until 1987.

	12 months ending 31 March 1989	12 months ending 31 March 1988	1986	1985
At the end of the year				
Total Assets	3.1	2.7	8.9	13.2
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	5.1
Equity of Canada	negl.	negl.	negl.	negl.
Cash from Canada in the year				
— budgetary*	60.5	67.4	33.9	37.4
— non-budgetary	nil	nil	nil	nil

* Included funding for activity supporting CIDA Pakistan projects, received via CIDA (in 1987-88, $5.3 million; in 1986, $10.5 million and in 1985, $17.1 million).

PETRO-CANADA INTERNATIONAL ASSISTANCE CORPORATION

AUDITORS' REPORT

TO THE SHAREHOLDER OF PETRO-CANADA
INTERNATIONAL ASSISTANCE CORPORATION

We have examined the balance sheets of Petro-Canada International Assistance Corporation (a wholly-owned subsidiary of Petro-Canada) as at March 31, 1989 and 1988 and the related statements of operations and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1989 and 1988, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.
Chartered Accountants

Calgary, Canada

April 24, 1989

BALANCE SHEET AS AT MARCH 31

ASSETS	1989	1988
	$	$
Current assets		
Cash and short-term deposits	574	181,644
Income taxes recoverable	1,496	85,162
Excess of total expenditures over parliamentary appropriations received	3,112,216	2,471,218
	3,114,286	2,738,024

LIABILITIES AND SHAREHOLDER'S EQUITY	1989	1988
	$	$
Current liabilities		
Due to affiliated company, Petro-Canada Inc.	3,114,285	2,738,023
SHAREHOLDER'S EQUITY		
Share capital (Note 3)	1	1
	3,114,286	2,738,024

Approved on behalf of the Board:

P. M. TOWE
Director

J. STANFORD
Director

PETRO-CANADA INTERNATIONAL ASSISTANCE CORPORATION—*Concluded*

STATEMENT OF OPERATIONS
FOR THE YEARS ENDED MARCH 31

	1989	1988
	$	$
Project expenditures (Note 4)	59,810,393	65,766,669
Expenses		
General and administrative	1,348,911	1,605,928
Interest income, net	(6,129)	(12,772)
Current income taxes	(12,177)	6,780
Total expenditures	61,140,998	67,366,605
Parliamentary appropriations received during the year	60,500,000	67,400,000
	640,998	(33,395)
Total expenditures in excess of parliamentary appropriations received at beginning of year	2,471,218	2,504,613
Total expenditures in excess of parliamentary appropriations received at end of year	3,112,216	2,471,218

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED MARCH 31

	1989	1988
	$	$
Sources of cash		
Parliamentary appropriations received	60,500,000	67,400,000
Decrease in income taxes recoverable	83,666	16,276
	60,583,666	67,416,276
Uses of cash		
Expenditures	(61,140,998)	(67,366,605)
Increase in due to affiliated company	376,262	5,808
	(60,764,736)	(67,360,797)
(Decrease) increase in cash and short-term deposits	(181,070)	55,479
Cash and short-term deposits at beginning of year	181,644	126,165
Cash and short-term deposits at end of year	574	181,644

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989 AND 1988

1. Incorporation

The Corporation was incorporated in 1981 by Petro-Canada under the Canada Business Corporations Act as a wholly-owned subsidiary pursuant to directions provided by Order-in-Council P.C. 1981-2167 of August 5, 1981.

2. Operations

The Corporation's operations are financed by Parliamentary appropriations. An affiliated company, Petro-Canada Inc. ("PCI"), provides technical and administrative services to the Corporation at cost.

3. Share capital

Authorized

Common shares—Unlimited

Issued

One common share for a cash consideration of one dollar.

4. Project expenditures

Project expenditures consist of the following:

	1989	1988
	$	$
Africa		
Morocco—Phase IV	7,410,827	6,849,650
Ghana—Phase III	5,958,690	322,899
Francophonie	2,333,511	1,836,989
Morocco—Phase V	1,488,840	
Kenya—Phase II	1,367,864	264,669
Botswana	1,274,088	7,171,599
Botswana—Phase II	789,978	
Morocco	594,265	300,126
Senegal/Gambia	142,387	630,593
Senegal/Gambia—Phase II	93,000	
Tanzania—Phase III	74,993	1,761,646
Morocco—Phase III	71,938	787,997
Tanzania—Phase II	36,120	(124,286)
Ghana—Phase II	20,917	2,101,175
Ghana	1,380	139,625
Morocco Special Project		9,283
Guinea		230
Gambia		316
Senegal	(50)	137
Kenya	(71,039)	347,709
Madagascar	(91,081)	488,700
Madagascar—Phase II	(105,659)	9,474,457
	21,390,969	32,363,514
Asia		
Jordan	12,696,467	5,288,021
Nepal	7,336,348	3,856,334
Thailand—Phase II	2,169,506	1,488,313
Thailand—Phase III	73,289	
Philippines—Phase III	43,300	
Burma	10,119	
Thailand	4,048	116,207
Philippines—Phase II		8,952
Sri Lanka		(1,044)
Pakistan	(4,665)	338,357
	22,328,412	11,095,140
Western Hemisphere		
Costa Rica—Phase II	7,146,037	12,668,738
Colombia	1,348,020	2,338,802
Sub Andean Basin	1,287,960	641,106
Costa Rica—Phase III	751,581	
Jamaica—Phase III	293,246	2,130,279
Costa Rica	150,420	1,112,218
Colombia—Phase II	17,389	
Barbados		2,661
Haiti		1,749
Barbados—Phase II		42
Barbados—Phase III		(65,386)
Jamaica—Phase II	(649)	4,658
	10,994,004	18,834,867
Technical Assistance Facility	2,322,230	2,332,665
Alberta Summer Institute for Petroleum Industry Development	1,504,037	831,803
South Pacific Offshore Region	514,658	418,022
Project Development	756,083	(109,342)
	59,810,393	65,766,669

SUMMARY PAGE

PORT OF QUEBEC CORPORATION

MANDATE

Administration, management and control of the Harbour of Quebec and all the works and property within the harbour previously under the jurisdiction of the Canada Ports Corporation or, prior to February 24, 1983, the National Harbours Board.

BACKGROUND

The Port of Quebec Corporation was established on June 1, 1984, pursuant to the national ports policy to create local port corporations at the major ports and harbours previously under the centralized administration of the National Harbours Board and, since February 1983, the Canada Ports Corporation. The port is an important trans-shipment point for Canadian grain exports and has recently modernized its two grain elevators which are operated under contract by a private firm. The port handled 18.2 million tonnes of cargo in 1988.

CORPORATION DATA

HEAD OFFICE	150 Dalhousie Street P.O. Box 2268 Quebec City, Quebec G1K 7P7
STATUS	— Schedule III, Part II — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Benoît Bouchard, P.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1984; letters patent of incorporation issued by the Minister of Transport pursuant to subsection 25(1) of the *Canada Ports Corporation Act.*
CHIEF EXECUTIVE OFFICER	Ross Gaudreault
CHAIRMAN	Guy Boulanger
AUDITOR	Thorne Ernst & Whinney

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1988	1987	1986	1985
At year end				
Total Assets	70.3	67.9	65.9	88.0
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	66.4	63.9	61.8	83.5
Cash from Canada in the period				
— budgetary	1.4	nil	nil*	nil
— non-budgetary	nil	nil	nil	nil

* Takes no account of special contributions to Canada in 1986 of $21.7 million.

PORT OF QUÉBEC CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE BENOÎT BOUCHARD, P.C., M.P.
MINISTER OF TRANSPORT

We have examined the balance sheet of the Port of Québec Corporation as at December 31, 1988 and the statements of income, contributed capital, surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the port as at December 31, 1988 and the results of its operations and the changes of its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Canada Ports Corporation Act and by-laws of the Corporation.

Thorne Ernst & Whinney
Chartered Accountants

Québec, Canada
February 10, 1989

BALANCE SHEET AS AT DECEMBER 31, 1988

ASSETS	1988	1987
	$	$
Current assets		
Cash	500,552	65,877
Investments (Note 1)	18,018,706	14,350,583
Accounts receivable	2,655,573	3,317,994
Materials and supplies	131,856	75,831
	21,306,687	17,810,285
Investments (Note 1)	6,676,546	6,650,201
Property, plant and equipment (Note 2)	42,337,986	43,466,432
	70,321,219	67,926,918

LIABILITIES AND EQUITY OF CANADA	1988	1987
	$	$
Current liabilities		
Accounts payable and accrued liabilities	1,955,951	2,079,649
Grants in lieu of municipal taxes	398,200	344,000
Deferred revenues	795,178	788,842
	3,149,329	3,212,491
Long-term		
Accrued employee benefits	810,200	768,478
EQUITY OF CANADA (Note 3)		
Contributed capital	63,182,198	61,759,198
Surplus	3,179,492	2,186,751
	66,361,690	63,945,949
	70,321,219	67,926,918

On behalf of the Board:

GUY BOULANGER
Chairman

ROSS GAUDREAULT
President and Chief Executive Officer

PORT OF QUÉBEC CORPORATION—*Continued*

STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 1988

	1988	1987
	$	$
Revenue from operations	11,177,475	10,634,983
Expenses		
Operating and administrative expenses	9,118,893	7,482,804
Depreciation	1,995,468	1,941,183
Grants in lieu of municipal taxes	1,053,686	806,713
	12,168,047	10,230,700
Income (loss) from operations	(990,572)	404,283
Investment income	2,290,572	1,786,580
Net income	1,300,000	2,190,863

STATEMENT OF CONTRIBUTED CAPITAL
YEAR ENDED DECEMBER 31, 1988

	1988	1987
	$	$
Balance at beginning of year	61,759,198	107,251,631
Contribution from Canada (Note 4)	1,423,000	
Contribution to Canada		(21,735,000)
Reduction of deficit (Note 3)		(23,757,433)
Balance at end of year	63,182,198	61,759,198

STATEMENT OF SURPLUS
YEAR ENDED DECEMBER 31, 1988

	1988	1987
	$	$
Surplus (deficit) at beginning of year	2,186,751	(23,757,433)
Reduction of deficit (Note 3)		23,757,433
Net income	1,300,000	2,190,863
Dividend to Canada	(307,259)	(4,112)
Surplus at end of year	3,179,492	2,186,751

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1988

	1988	1987
	$	$
Cash provided by (used for)		
Operations		
Net income	1,300,000	2,190,863
Items not affecting cash		
Amortization of discount on Canada Government bonds	(26,345)	(26,345)
Depreciation	1,995,468	1,941,183
Loss (gain) on disposal of property, plant and equipment	(53,145)	30,394
Accrued employee benefits	41,722	30,978
Changes in non-cash operating working capital (Note 5)	543,234	(1,717,137)
	3,800,934	2,449,936
Investment		
Additions to property, plant and equipment	(874,918)	(509,124)
Proceeds on disposal of property, plant and equipment	58,152	22,605
Others	2,889	
	(813,877)	(486,519)
Financing		
Contributed capital	1,423,000	(45,492,433)
Contribution to Canada		21,735,000
Reduction of deficit		23,757,433
Dividend to Canada	(307,259)	(4,112)
	1,115,741	(4,112)
Increase in cash position	4,102,798	1,959,305
Cash position at beginning of year	14,416,460	12,457,155
Cash position at end of year	18,519,258	14,416,460
Cash position is represented by		
Cash	500,552	65,877
Investments	18,018,706	14,350,583
	18,519,258	14,416,460

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1988

General

The Port of Québec Corporation was incorporated on June 1, 1984, under article 6.2(1) of the Canada Ports Corporation Act.

Summary of significant accounting policies

Investments

Investments are direct securities guaranteed by Canada. They are presented at amortized cost and the premium or discount is amortized over the periods to maturity.

Property, plant and equipment

Property, plant and equipment are recorded at cost except for those transferred to the Corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants received from Canada and from third parties for capital projects are deducted from the cost of the related property, plant and equipment.

PORT OF QUÉBEC CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1988—*Continued*

Depreciation is calculated using the straight line method, once the assets become operational for an entire year, using the following annual rates:

Dredging	2.5%-6.7%
Berthing structures	2.5%-10%
Buildings	2.5%-10%
Utilities	3.3%-10%
Roads and surfaces	2.5%-10%
Machinery and equipment	5%-20%
Office furniture and equipment	20%

Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis.

Insurance

The Port of Québec Corporation assumes all risks with respect to compensation claims for occupational injury. Any costs arising from these claims are recorded in the accounts in the year they can be reasonably estimated.

Grants in lieu of municipal taxes

The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the Municipal Grants Act. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

Employee benefits

Every year the Corporation accounts for estimated liabilities relating to severance pay, annual leave and overtime compensatory leave; these benefits are payable to its employees in subsequent years under its collective agreements or in accordance with its policy.

1. Investments

Investments, which are direct securities guaranteed by Canada, are as follows:

	1988		1987	
	Cost	Market value	Cost	Market value
	$	$	$	$
Current	18,018,706	17,947,547	14,350,583	14,360,850
Long-term	6,676,546	7,208,678	6,650,201	7,225,330

2. Property, plant and equipment

	1988			1987
	Cost	Accumulated depreciation	Net	Net
	$	$	$	$
Land	11,098,253		11,098,253	11,043,597
Dredging	4,561,341	3,951,308	610,033	638,094
Berthing structures	22,636,930	16,677,704	5,959,226	6,364,123
Buildings	33,469,919	14,309,763	19,160,156	19,945,183
Utilities	3,674,038	2,136,097	1,537,941	1,481,989
Roads and surfaces	5,930,727	3,560,897	2,369,830	2,672,073
Machinery and equipment	527,604	388,377	139,227	125,700
Office furniture and equipment	620,747	389,211	231,536	221,716
Projects under construction	1,231,784		1,231,784	973,957
	83,751,343	41,413,357	42,337,986	43,466,432

3. Equity of Canada

In 1987, the Minister of Transport approved the elimination of the accumulated deficit to January 1, 1987 totalling $23,757,433, by reducing the contributed capital by the same amount.

4. Contribution from Canada

Pursuant to a resolution from the Treasury Board, the ministry of Transport has transferred at no cost on January 1, 1988, the administration, management, control and property of certain assets previously managed by Société Immobilière du Canada (Vieux Port de Québec) Inc. The ministry of Transport of Canada paid to the Corporation a total amount of $1,423,000 as a compensation to help absorb the estimated operating deficits for the next five years. This amount has been credited to contributed capital.

5. Changes in non-cash operating working capital

	1988	1987
	$	$
Accounts receivable	662,421	(1,557,064)
Materials and supplies	(56,025)	(7,050)
Accounts payable and accrued liabilities	(123,698)	28,808
Grants in lieu of municipal taxes	54,200	(310,808)
Deferred revenues	6,336	128,977
	543,234	(1,717,137)

PORT OF QUÉBEC CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1988—*Concluded*

6. Related Party Transactions

During the year, the Corporation entered into transactions with related entities comprising various ministry, government organizations and Crown corporations.

Principally, the Corporation earned rental revenues from related entities totalling $1.1 million ($1.2 million in 1987). Expenses paid to related parties mainly consist in management fees and amount to $728,000.

7. Contingencies

Claims aggregating approximately $1,500,000 have been received by the Corporation in respect of lawsuits, warranties, collective agreements, damages allegedly suffered on Corporation property and various other matters in dispute. In the Corporation's view, its position is defensible and these claims should not result in any material losses.

In addition, claims for an estimated amount at $2,000,000 have been received by the Corporation concerning the ownership of certain lands. Any amount payable in connection with those claims will be capitalized to the cost of land.

These amounts are not recorded in the financial statements.

SUMMARY PAGE

PRINCE RUPERT PORT CORPORATION

MANDATE

Administration, management and control of the Prince Rupert Harbour and all the works and property within the harbour previously under the jurisdiction of the Canada Ports Corporation or, prior to February 24, 1983, the National Harbours Board.

BACKGROUND

The Prince Rupert Port Corporation was established on June 1, 1984, pursuant to the national ports policy to create local port corporations at the major ports and harbours previously under the centralized administration of the National Harbours Board and, since February 1983, the Canada Ports Corporation. In 1988, 12.4 million tonnes of cargo, 6.7 million tonnes of which was coal, was shipped through Prince Rupert.

CORPORATION DATA

HEAD OFFICE	110 Third Avenue, West Prince Rupert, British Columbia V8J 1K8
STATUS	— Schedule III, Part II — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Benoît Bouchard, P.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1984; letters patent of incorporation issued by the Minister of Transport, pursuant to subsection 25(1) of the *Canada Ports Corporation Act.*
CHIEF EXECUTIVE OFFICER	R.W. Tytaneck
CHAIRMAN	A.T. Sheppard
AUDITOR	Thorne Ernst & Whinney

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1988	1987	1986 (restated)	1985 (restated)
At the end of the year				
Total Assets	88.7	84.2	80.7	81.2
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	48.3	48.3*	75.4	76.6
Equity of Canada	39.2	34.8	(6.8)	(8.1)
Cash from Canada in the period				
— budgetary**	nil	nil	nil	0.3
— non-budgetary	nil	nil	nil	nil

* Comprises $48.3 million conditional obligation; in 1987 Canada forgave $27.1 million loan principal outstanding, which amount, with related interest forgiven, was added to the corporation's contributed capital.

** Takes no account of payments to Canada: In 1987, dividend $0.8 million and, in 1986, special contributions, $2.5 million.

PRINCE RUPERT PORT CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE BENOÎT BOUCHARD, P.C., M.P.
MINISTER OF TRANSPORT

We have examined the balance sheet of the Prince Rupert Port Corporation as at December 31, 1988, and the statements of income and surplus to Canada and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, and the Letters Patent and By-laws of the Corporation.

Thorne Ernst & Whinney
Chartered Accountants

Vancouver, Canada
February 8, 1989

BALANCE SHEET AS AT DECEMBER 31, 1988

ASSETS	1988	1987
	$	$
Current assets		
Cash	54,386	50,506
Investments (Note 1)	16,431,572	11,847,375
Accounts receivable	861,425	950,357
Materials and supplies	93,664	67,322
	17,441,047	12,915,560
Property and equipment (Note 2)	71,272,047	71,312,750
	88,713,094	84,228,310

LIABILITIES AND EQUITY OF CANADA	1988	1987
	$	$
Current liabilities		
Accounts payable and accrued liabilities	686,166	546,908
Payable to Canada	18,868	2,965
Grants in lieu of municipal taxes	394,598	368,140
Deferred revenues	149,330	162,216
	1,248,962	1,080,229
Recoverable contribution from Canada (Note 3)	48,300,000	48,300,000
	49,548,962	49,380,229
EQUITY OF CANADA		
Contributed capital	31,311,805	31,311,805
Surplus	7,852,327	3,536,276
	39,164,132	34,848,081
	88,713,094	84,228,310

Commitments (Note 4)

Approved by the Board:

ALLAN T. SHEPPARD
Chairman

ROBERT W. TYTANECK
General Manager and Chief Executive Officer

PRINCE RUPERT PORT CORPORATION—*Continued*

STATEMENT OF INCOME AND SURPLUS
YEAR ENDED DECEMBER 31, 1988

	1988	1987
	$	$ (as restated Note 6)
Revenue from operations	14,585,020	14,852,377
Expenses		
Operating and administrative	9,563,862	9,776,591
Depreciation (Note 2)	697,684	1,136,992
Grants in lieu of municipal taxes	407,665	405,538
	10,669,211	11,319,121
Income from operations	3,915,809	3,533,256
Other income (expense)		
Interest income	1,257,306	781,979
Settlement of litigation (Note 6)	87,507	(350,000)
	1,344,813	431,979
Net income	5,260,622	3,965,235
Surplus (deficit) at beginning of year	3,536,276	(5,838,325)
	8,796,898	(1,873,090)
Deficit reduction		6,188,325
	8,796,898	4,315,235
Dividend to Canada	944,571	778,959
Surplus at end of year	7,852,327	3,536,276

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1988

	1988	1987
	$	$ (as restated Note 6)
Cash provided by (used for)		
Operations		
Net income	5,260,622	3,965,235
Items not involving cash		
Depreciation	697,684	1,136,992
Settlement of litigation		350,000
	5,958,306	5,452,227
Changes in non-cash operating working capital		
Accounts receivable	88,932	(384,073)
Materials ans supplies	(26,342)	12,606
Accounts payable and accrued liabilities	139,258	19,145
Grants in lieu of municipal taxes	26,458	16,429
Deferred revenues	(12,886)	(24,035)
	6,173,726	5,092,299
Financing		
Increase in payable to Canada	15,903	2,965
Forgiveness of loans from Canada		(38,110,991)
Increase in contributed capital		38,110,991
Dividend to Canada	(944,571)	(778,959)
	(928,668)	(775,994)
Investments		
Purchase of property and equipment	(656,981)	(425,693)
Decrease in receivable from Canada		63,937
	(656,981)	(361,756)
Increase in cash position	4,588,077	3,954,549
Cash position at beginning of year	11,897,881	7,943,332
Cash position at end of year	16,485,958	11,897,881

Cash position is defined to include cash plus investments.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988

Local Port Corporation

The Prince Rupert Port Corporation was established effective June 1, 1984 as a local port corporation pursuant to the Canada Ports Corporation Act. The Corporation is exempt from income taxes.

On June 1, 1984, all the assets and liabilities of Canada Ports Corporation relating to the Port of Prince Rupert were transferred to the Corporation at their book value as recorded by Canada Ports Corporation. The net liabilities assumed were recorded as contributed capital of $678,275 and a deficit of $11,673,894.

Summary of Significant Accounting Policies

Investments

The investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. Premiums or discounts are amortized over the periods to maturity.

Property and equipment

Property and equipment are recorded at cost. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related property and equipment.

Depreciation is calculated on the straight-line basis using rates based on the estimated useful lives of the assets.

Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis.

Grants in lieu of municipal taxes

The expense for grants in lieu of municipal taxes is estimated based on municipal assessments adjusted in accordance with the Municipal Grants Act. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

Employee benefits

The Corporation accrues in its accounts annually the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees in subsequent years.

PRINCE RUPERT PORT CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988—*Concluded*

1. Investments

	1988	1987
	$	$
Amortized cost	16,431,572	11,847,375
Market value	16,377,031	11,839,614

2. Property and equipment

(a) Summary

		1988			1987
		Cost	Accumulated depreciation	Net	Net
	%	$	$	$	$
Land		60,126,625		60,126,625	60,126,625
Dredging	2.5-6.7	5,177	1,424	3,753	3,883
Berthing structures	2.5-10	8,699,242	3,022,833	5,676,409	5,914,072
Buildings	2.5-10	2,362,861	457,593	1,905,268	1,954,216
Utilities	3.3-10	2,597,237	1,291,956	1,305,281	1,409,548
Roads and surfaces	2.5-10	3,512,385	2,123,922	1,388,463	1,613,842
Machinery and equipment	5-10	1,704,860	1,457,925	246,935	252,453
Office furniture and equipment	20	257,830	157,888	99,942	38,111
Construction in progress		519,371		519,371	
		79,785,588	8,513,541	71,272,047	71,312,750

(b) Depreciation

Depreciation consists of:

	1988	1987
	$	$
Depreciation expense	697,684	714,841
Write-down of equipment		422,151
	697,684	1,136,992

3. Recoverable contribution from Canada

A recoverable contribution of $50,400,000 was approved for the construction of the infrastructure for the coal terminal facility on Ridley Island. The recoverable contribution as at December 31, 1988 was $48,300,000.

The total recoverable contribution is interest-free until April 1, 1989, and thereafter bears interest at approximately 13.9%.

Principal and interest on $48,300,000 of the contribution are repayable over 20 years, commencing on April 1, 1989, contingent upon the revenues received from a direct coal throughput surcharge of $.44 per tonne, at a minimum of $2,900,000 but not to exceed $5,300,000 per year.

4. Commitments

(a) At december 31, 1988, commitments in connection with construction of a new berth at Fairview Terminal amounted to approximately $30,772,000.

(b) The corporation rents a building under a long-term operating lease which expires May 1, 1991, the annual rental rate for which is $81,264. The aggregate rental payable to the expiry date amounts to $189,616.

5. Related party transactions

(a) During the year, the Corporation received revenue of $1,274,593 (1987, $1,112,764) from Ridley Terminals Inc., a company in which Canada Ports Corporation has a significant investment. At December 31, 1988, the Corporation was owed $124,961 by Ridley Terminals Inc. (1987, $100,290).

(b) During the year, the Corporation paid $485,279 (1987, $434,784) to Canada Ports Corporation as its share of that corporation's head office expense.

6. Settlement of litigation

During 1987, the Corporation settled a lawsuit for $350,000 relating to a dispute over the settling of the Ridley Island Rail Embankment. Since the suit arose in a prior period, the settlement was accounted for as a prior period adjustment. In view of the significant involvement of management in obtaining this settlement, it has been determined that it is appropriate to account for this item as a charge to 1987 income rather than as a prior period adjustment. This change has no effect on the 1988 accounts and results in decreasing 1987 net income and decreasing deficit at January 1, 1987 (as restated) by $350,000.

SUMMARY PAGE
ROYAL CANADIAN MINT

MANDATE

To mint coins in anticipation of profit and to carry out other related activities.

BACKGROUND

Founded in 1908 as a branch of the Mint of the United Kingdom, its operations devolved to the Crown in right of Canada in 1931. It was a departmental agency of the government until 1969 when it was incorporated by legislation. *The Act to Amend the Royal Canadian Mint Act and the Currency Act,* which came into force on December 17, 1987, authorizes share capital for the corporation. The spirit of this Act is generally that the Mint shall operate in a competitive international environment. In accord with this the corporation's name was removed from Schedule III-1 and was added to Schedule III-11 of the *Financial Administration Act* amongst the competitive and ordinarily self-sustaining Crown corporations on December 17, 1987.

CORPORATION DATA

HEAD OFFICE	320 Sussex Drive Ottawa, Ontario K1A 0G8
STATUS	— Schedule III, Part II — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Paul Dick, P.C., M.P.
DEPARTMENT	Supply and Services
YEAR AND MEANS OF INCORPORATION	1969; by the *Royal Canadian Mint Act* (R.S.C. 1985, c. R-9).
CHIEF EXECUTIVE OFFICER	Maurice Lafontaine
CHAIRMAN	James Corkery
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1988	1987	1986	1985
At the end of the year				
Total Assets	121.4	127.4	116.8	115.9
Obligations to the private sector	nil	0.1	0.4	0.6
Obligations to Canada*	84.2	87.2	82.8	76.7
Equity of Canada	9.8	1.1	1.0	1.0
Cash from (to) Canada in the year				
— budgetary	nil	(12.8)	nil	(10.7)
— non-budgetary, net	(3.0)	(3.1)	(3.7)	19.8

* Includes net earnings due to Canada; 1988, $60.4 million.

ROYAL CANADIAN MINT

AUDITOR'S REPORT

TO THE MINISTER OF SUPPLY AND SERVICES

I have examined the balance sheet of the Royal Canadian Mint as at December 31, 1988 and the statements of income and retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Royal Canadian Mint Act and by-laws of the Corporation.

Raymond Dubois, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
March 2, 1989

BALANCE SHEET AS AT DECEMBER 31, 1988
(in thousands of dollars)

ASSETS	1988	1987
Current		
Cash and short-term investments	37,739	28,052
Accounts receivable		
Government departments	6,509	4,246
Other	8,809	11,760
Inventories (Note 4)	26,703	36,674
Prepaid expenses	585	198
	80,345	80,930
Deferred expenses (Note 5)	9	5,829
Property, buildings and equipment (Note 6)	41,015	40,662
	121,369	127,421

LIABILITIES	1988	1987
Current		
Accounts payable		
Government departments	1,006	10,059
Other	18,781	20,968
Due to Government of Canada		
Net earnings (Note 7)	60,363	60,363
Current portion of long-term loans (Note 8)	7,673	2,989
Accrued interest on long-term loans	657	739
Deferred revenues	1,772	2,683
	90,252	97,801
Loans from Government of Canada (Note 8)	16,213	23,886
Provision for employee termination benefits	5,072	4,593
	21,285	28,479
SHAREHOLDER'S EQUITY		
Share capital (Note 2)		
Reserve for losses (Note 2)	692	758
Retained earnings	9,140	383
	121,369	127,421

Approved by management:

M. A. J. LAFONTAINE
President and Master

J. E. UBERIG
Vice-President. Administration and Finance

Approved by the Board of directors:

J. C. CORKERY
Chairman

ROYAL CANADIAN MINT—*Continued*

STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Revenues		
Precious metal coins	726,863	872,694
Canadian circulating coins	57,091	52,169
1988 Olympic Coin Programme	39,205	69,069
Canadian numismatic coins	31,939	25,351
Foreign contracts	27,990	6,902
Refinery	5,953	5,500
Miscellaneous	3,536	1,096
	892,577	1,032,781
Expenses (Note 9)		
Cost of materials used	802,237	932,820
Salaries, wages and benefits	29,509	27,974
Promotion	24,725	26,448
Transportation and communications	7,153	6,197
Professional and special services	4,974	4,250
Utilities and supplies	4,238	4,489
Miscellaneous	3,729	2,508
Interest on long-term loans	2,697	2,994
Depreciation	2,403	2,364
Building and equipment rental	2,155	1,991
	883,820	1,012,035
Net earnings for the year	8,757	20,746
Net earnings due to Government of Canada (Note 7)		(20,363)
Retained earnings, beginning of year	383	
Retained earnings, end of year	9,140	383

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Operating activities		
Net earnings for the year	8,757	20,746
Items not affecting funds		
Depreciation	2,403	2,364
Amortization of deferred expenses	5,820	5,622
	16,980	28,732
Net change in non-cash working capital	2,657	4,573
Increase in provision for employee termination benefits	479	394
	20,116	33,699
Investing activities		
Additions to fixed assets (net)	(2,756)	(1,259)
	(2,756)	(1,259)
Financing activities		
Decrease in loans from Government of Canada	(7,673)	(2,989)
Payment of net earnings to Government of Canada		(12,788)
	(7,673)	(15,777)
Increase in cash	9,687	16,663
Cash and short-term investments, beginning of year	28,052	11,389
Cash and short-term investments, end of year	37,739	28,052

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988

1. Authority and objectives

The Mint was incorporated in 1969 by the Royal Canadian Mint Act and is an agent of Her Majesty named in Part II of Schedule III to the Financial Administration Act.

The objectives of the Mint are to mint coins in anticipation of profit and to carry out other related activities.

The mint may borrow money from the Consolidated Revenue Fund or any other source, subject to approval of the Minister of Finance with respect to the time and the terms and conditions, but the aggregate of the amounts loaned to the Mint and outstanding at any time shall not exceed $50 million.

2. Shareholder's Equity

On December 22, 1988 an Order in Council was approved by the Governor in Council for the purchase by the Minister of Supply and Services of four thousand shares of the Royal Canadian Mint at a price of ten thousand dollars per share. These shares will be issued in 1989. It is the intention of the Mint to apply the proceeds to reduce the net earnings due to the Government of Canada.

The statutory provisions allowing the Mint to maintain a reserve against possible losses have been repealed by an amendment to the Royal Canadian Mint Act on December 17, 1987. However, the reserve has been maintained in the event that losses arise pertaining to the periods prior to December 17, 1987.

3. Significant accounting policies

(a) Foreign currency translation

Foreign currency transactions are translated into Canadian dollars at the exchange rate in effect at the transaction date. Assets and liabilities denominated in foreign currency at the balance sheet date are translated into Canadian dollars at the exchange rate in effect at that date.

(b) Inventories

Raw materials, work in process and finished goods are valued at the lower of cost and net realizable value, cost being determined by the average cost method.

Operating and maintenance supplies are valued at the lower of cost and replacement cost, cost being determined by the average cost method.

(c) Property, buildings and equipment

Property, buildings and equipment are recorded at cost and depreciated under the straight-line method at the following annual rates:

Land improvements	2 1/2%
Buildings	2 1/2%
Equipment	10%

(d) Employee termination benefits

According to their collective agreement and terms of employment, employees are entitled to termination benefits. The liability for these benefits is recorded when earned by the employees.

(e) Pension plan

Employees participate in the Public Service Superannuation Plan, which is administered by the Government of Canada. Contributions to the plan are required from both the employees and the Mint. These contributions represent the Mint's total liability and are recorded on a current basis.

ROYAL CANADIAN MINT—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988—*Concluded*

4. Inventories

	1988	1987
	(in thousands of dollars)	
Raw materials	16,628	16,306
Work in process	3,224	6,145
Finished goods	4,088	11,418
Operating and maintenance supplies	2,763	2,805
	26,703	36,674

In order to facilitate the production of precious metal coins, the Mint borrows the quantity of gold, platinum and silver required and pays interest based on the value of these metals established on the commodity markets. As at December 31, 1988 a total of 1,051,559 ounces of gold, 114,212 ounces of platinum and 1,279,133 ounces of silver was borrowed and was not reflected in these financial statements.

5. Deferred expenses

Included under this caption were the expenses related to the launching of the 1988 Olympic Coin Programme. In 1988, $5.3 million was amortized (1987—$5.6 million).

6. Property, buildings and equipment

	1988			1987
	Cost	Accumulated depreciation	Net book value	Net book value
	(in thousands of dollars)			
Land	579		579	579
Land improvements	933	555	378	393
Buildings	38,252	7,885	30,367	30,984
Equipment	25,157	15,466	9,691	8,706
	64,921	23,906	41,015	40,662

7. Due to Government of Canada, net earnings

	1988	1987
	(in thousands of dollars)	
Balance at beginning of the year	60,363	52,788
Net earnings due to Government of Canada		20,363
Paid during the year		(12,788)
Balance at end of the year	60,363	60,363

Accumulated net earnings, prior to the amendment of the Royal Canadian Mint Act on December 17, 1987 and net earnings generated by the 1988 Olympic Coin Programme are payable to the Government of Canada.

8. Loans from Government of Canada

These loans bear interest at various annual rates ranging from 8.25% to 12.00% and are repayable according to the following schedule:

	(in thousands of dollars)
1989	7,673
1990	2,673
1991	2,673
1992	2,673
1993	2,673
1994-1998	5,521
	23,886
Current portion	(7,673)
	16,213

9. Expenses

Expenses include cost of goods sold, detailed as follows:

	1988	1987
	(in thousands of dollars)	
Materials used	802,237	932,820
Direct labour	3,326	3,696
Manufacturing overhead	26,559	28,922
	832,122	965,438

10. Related party transactions

Included in these financial statements are transactions with the Department of Finance relating to the borrowing, refining and purchasing of gold. These transactions were conducted in the normal course of business, under the same terms and conditions that apply to unrelated parties.

Transactions with the Department of Finance related to the production and delivery of Canadian circulating coins are generally carried out on a cost recovery basis.

SUMMARY PAGE

SAINT JOHN PORT CORPORATION

MANDATE

Administration, management and control of the Saint John harbour and all the works and property within the harbour previously under the jurisdiction of the Canada Ports Corporation or, prior to February 24, 1983, the National Harbours Board.

BACKGROUND

The Saint John Port Corporation was established on December 31, 1986, pursuant to the national ports policy to create local ports corporations at the major ports and harbours previously under the centralized administration of the National Harbours Board and, since February 1983, the Canada Ports Corporation. Total traffic through Saint John in 1987 was 14.9 million tonnes. Petroleum products, in particular crude oil imports at 11.4 million tonnes, accounted for 77 per cent of the 1988 tonnage, the rest being forest products, potash, grain and salt.

CORPORATION DATA

HEAD OFFICE	133 Prince William Street P.O. Box 6429, Station A Saint John, New Brunswick E2L 4R8
STATUS	— Schedule III, Part II — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Benoît Bouchard, P.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1986; letters patent issued by the Minister of Transport pursuant to subsection 25(1) of the *Canada Ports Corporation Act*.
CHIEF EXECUTIVE OFFICER	Kenneth Krauter
CHAIRMAN	Harry P. Gaunce
AUDITOR	Clarkson Gordon

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1988	1987	Balance sheet data at start of operation on January 1, 1987
At the end of the year			
Total Assets	91.5	91.5	92.5
Obligations to the private sector	nil	nil	nil
Obligations to Canada	20.1	20.1*	58.3
Equity of Canada	50.1	48.0	1.6
Cash from Canada in the period			
— budgetary	nil	nil	not applicable
— non-budgetary	nil	nil	not applicable

* During 1987, Canada forgave $37.8 million loan principal outstanding, which amount, with related interest forgiven, was added to the corporation's contributed capital.

SAINT JOHN PORT CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE BENOÎT BOUCHARD, P.C., M.P.
MINISTER OF TRANSPORT

We have examined the balance sheet of the Saint John Port Corporation as at December 31, 1988 and the statements of income, retained earnings, contributed capital and cash flows for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Canada Ports Corporation Act and the by-laws of the Corporation.

Clarkson Gordon
Chartered Accountants

Saint John, Canada
February 3, 1989

BALANCE SHEET AS AT DECEMBER 31, 1988
(in thousands of dollars)

ASSETS	1988	1987	LIABILITIES AND EQUITY OF CANADA	1988	1987
Current			Current liabilities		
Cash	620	260	Accounts payable and accrued charges	890	3,044
Investments (Note 3)	8,427	6,253	Deferred revenues	279	273
Accounts receivable	1,512	1,208	Grants in lieu of municipal taxes	103	
Materials and supplies	46	93		1,272	3,317
	10,605	7,814	Accrued employee benefits	398	425
Long-term investments (Note 3)	956	952	Financing provided by a province (Note 5)	19,696	19,696
Fixed assets (Note 4)	79,960	82,734	Loans from Canada (Note 6)	20,052	20,052
				41,418	43,490
			EQUITY OF CANADA		
			Contributed capital (Note 7)	49,372	49,372
			Retained earnings (deficit)	731	(1,362)
				50,103	48,010
	91,521	91,500		91,521	91,500

See accompanying notes.

On behalf of the Board:

HARRY P. GAUNCE
Chairman

KENNETH R. KRAUTER
General Manager and Chief Executive Officer

SAINT JOHN PORT CORPORATION—*Continued*

STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Revenues		
Harbour services	4,459	4,056
Rentals (Note 8)	5,616	4,107
Shipping services and other	1,567	1,181
	11,642	9,344
Expenses		
Salaries and employees' benefits	2,867	3,834
Purchased services	903	593
Energy and utilities	254	345
Operating and administrative	1,829	1,738
Grants in lieu of municipal taxes	727	54
Depreciation	2,700	2,659
Gain on disposal of fixed assets	(16)	(6)
	9,264	9,217
Income from operations before undernoted items	2,378	127
Unusual item		
Gain on disposal of land	1,218	222
Income from operations	3,596	349
Investment income	860	702
Interest expense	(2,363)	(2,413)
	(1,503)	(1,711)
Net income (loss) for the year	2,093	(1,362)

See accompanying notes.

STATEMENT OF CONTRIBUTED CAPITAL
YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Balance, beginning of year	49,372	79,209
Add: forgiveness of non-interest bearing loans (Note 7)		47,791
	49,372	127,000
Less: contribution to Canada (Note 7)		1,033
deficit reduction (Note 7)		76,595
Balance, end of year	49,372	49,372

See accompanying notes.

STATEMENT OF RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Balance, beginning of year as previously reported	(1,362)	76,595
Deficit reduction (Note 7)		76,595
Balance, as restated	(1,362)	
Net income (loss) for the year	2,093	(1,362)
Balance, end of year	731	(1,362)

See accompanying notes.

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Cash provided by (used in)		
Operations		
Net income (loss) for the year	2,093	(1,362)
Add (deduct) items not requiring a cash payment		
Depreciation	2,700	2,659
Gain on disposal of fixed assets	(1,234)	(228)
Other	9	(48)
	3,568	1,021
Net change in non-cash working capital balances related to operations (Note 9)	(2,300)	1,882
Cash provided by operations	1,268	2,903
Financing		
Repayment of loans from Canada		(512)
Investing		
Additions to fixed assets	(785)	(1,039)
Proceeds on disposal of fixed assets	1,252	228
Recovery on Musquash Harbour Project	799	
	1,266	(811)
Increase in cash and short-term investments during current year's activities	2,534	1,580
Cash and short-term investments, beginning of year	6,513	4,933
Cash and short-term investments, end of year	9,047	6,513

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988

1. Canada Ports Corporation Act and Incorporation

In accordance with the Canada Ports Corporation Act, a petition for the establishment of a local port corporation at the Port of Saint John was approved and the Saint John Port Corporation was established effective at the closing of business on December 31, 1986 and commenced operations January 1, 1987.

In accordance with the Canada Ports Corporation Act, the assets, liabilities and equity were transferred to the Saint John Port Corporation at their carrying values in the accounts of the Canada Ports Corporation—Port of Saint John.

2. Significant accounting policies

(a) Investments

The investments are shown at amortized cost whereby premiums or discounts from par value are amortized over the periods to maturity.

(b) Fixed assets

Fixed assets are recorded at cost except for those transferred to the Corporation from Canada which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

SAINT JOHN PORT CORPORATION—*Continued*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988—*Continued*

Depreciation is calculated on the straight-line basis for the full year, commencing with the year the asset becomes operational, using rates as follows:

Asset	Depreciation Rates %
Dredging	2.5-6.7
Berthing structures	2.5-10.0
Buildings	2.5-10.0
Utilities	3.3-10.0
Roads and surfaces	2.5-10.0
Machinery and equipment	5.0-100.0
Office furniture and equipment	20.00

(c) Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis.

(d) Insurance

The Corporation assumes substantially all risks against fire and general perils, as well as for workers' compensation claims. Any costs arising from these risks are recorded in the accounts in the year they can be reasonably estimated.

(e) Grants in lieu of municipal taxes

The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the Municipal Grants Act. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

(f) Employee benefits

The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay and annual leave which are payable to its employees in subsequent years under its collective agreements or in accordance with its policy.

3. Investments

Investments are direct and guaranteed securities of Canada as follows:

	1988		1987	
	Amortized cost	Face value	Amortized cost	Face value
	(in thousands of dollars)			
Canada Treasury Bills	8,427	8,780	6,253	6,479
Canada Bonds	956	1,000	952	1,000

4. Fixed assets

Fixed assets consist of the following:

	1988			1987
	Cost	Accumulated depreciation	Net book value	Net book value
	(in thousands of dollars)			
Land	30,363		30,363	30,063
Dredging	1,967	1,479	488	507
Berthing structures	63,645	27,700	35,945	37,319
Buildings	15,566	8,047	7,519	7,941
Utilities	7,651	3,401	4,250	4,574
Roads and surfaces	4,779	4,097	682	936
Machinery and equipment	1,872	1,628	244	281
Office furniture and equipment	1,071	617	454	260
Work under construction	15		15	853
	126,929	46,969	79,960	82,734

5. Financing provided by a province

The Province of New Brunswick advanced $25,000,000 to partially finance the construction of Rodney Terminal Complex, Saint John. The Province will receive annual principal payments equal to approximately 47% of the net operating income of the terminal until the non-interest bearing advance is repaid. The cost of major repairs has been included in calculating the net operating income of the terminal and the current portion payable as at December 31, 1988 has been calculated accordingly. The Province is disputing this accounting treatment. Had net operating income not been reduced by the cost of these major repairs, the current portion payable would be approximately $920,000.

6. Loans from Canada

	1988	1987
	(in thousands of dollars)	
Term loans bearing interest at 11.0% to 12.43% maturing between December 31, 1998 and 2005	20,052	20,052

7. Contributed capital

In 1987, the non-interest bearing loans in the amount of $47,791,000 were forgiven by Canada. This amount has been credited to contributed capital.

Payments from excess cash made in 1986 to Canada and treated as Contribution to Canada in the amount of $1,033,000 have been reclassified to contributed capital.

SAINT JOHN PORT CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988—*Concluded*

The Minister of Transport has approved a reduction of the deficit as at January 1, 1987 in the amount of $76,595,000 with a corresponding reduction in contributed capital.

8. Rental settlement

During the year, a rental dispute with several of the Corporation's tenants was settled. This dispute has been ongoing for several years and the Corporation had provided annually for its settlement based on their best estimate.

In 1988, $398,000 representing the excess provision over the settlement amount was taken into income. 1987 rental income was reduced by a settlement provision of $970,000.

9. Net change in non-cash working capital balances related to operations

This consists of the following:

	1988	1987
	(in thousands of dollars)	
Decrease (increase) in current assets		
Accounts receivable	(304)	862
Materials and supplies	48	36
	(256)	898
Increase (decrease) in current liabilities		
Accounts payable and accrued charges	(2,153)	1,477
Deferred revenues	6	56
Grants in lieu of municipal taxes	103	(549)
	(2,044)	984
	(2,300)	1,882

10. Related party transactions

During the year the Corporation paid $728,000 (1987—$652,000) to Canada Ports Corporation as its share of that Corporation's head office expense.

11. Comparative figures

The comparative figures have been reclassified to conform to the financial statement presentation adopted for 1988.

SUMMARY PAGE

ST. JOHN'S PORT CORPORATION

MANDATE

Administration, management and control of the Harbour of St. John's and all the works and property within the harbour previously under the jurisdiction of the Canada Ports Corporation or, prior to February 24, 1983, the National Harbours Board.

BACKGROUND

St. John's Port Corporation was established on June 1, 1985, pursuant to the national ports policy to create local ports corporations at the major ports and harbours previously under the centralized administration of the National Harbours Board and, since February 1983, the Canada Ports Corporation. Cargo handled by the corporation's facilities in 1988 amounted to 0.5 million tonnes.

CORPORATION DATA

HEAD OFFICE	3 Water Street P.O. Box 6178 St. John's, Newfoundland A1C 5X8
STATUS	— Schedule III, Part II — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Benoît Bouchard, P.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1985; letters patent issued by the Minister of Transport, pursuant to subsection 25(1) of the *Canada Ports Corporation Act.*
CHIEF EXECUTIVE OFFICER	David Fox
CHAIRMAN	Fred Milley
AUDITOR	Doane Raymond

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1988	**1987**	**1986**	**7 months to Dec. 31, 1985**
At the end of the year				
Total Assets	16.9	15.6	14.4	16.9
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	3.3	2.5	1.5	1.6
Equity of Canada	12.3	12.2	11.9	13.2
Cash from Canada in the period				
— budgetary*	nil	nil	nil	nil
— non-budgetary	0.8	1.0	nil	nil

* Takes no account of payments to Canada: in 1987, dividend $0.2 million and, in 1986, special contributions, $1.8 million.

ST. JOHN'S PORT CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE BENOÎT BOUCHARD, P.C., M.P.
MINISTER OF TRANSPORT

We have examined the balance sheet of the St. John's Port Corporation as at December 31, 1988, and the statements of income and surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Canada Ports Corporation Act and the by-laws of the Corporation.

Doane Raymond
Chartered Accountants

St. John's, Canada
February 17, 1989

BALANCE SHEET AS AT DECEMBER 31, 1988

ASSETS	1988	1987
	$	$
Current		
Cash	36,008	83,548
Investments (Note 3)	1,920,228	863,594
Accounts receivable	361,184	284,223
	2,317,420	1,231,365
Fixed (Note 4)	14,563,595	14,332,175
	16,881,015	15,563,540

LIABILITIES	1988	1987
	$	$
Current		
Accounts payable and accrued liabilities	776,689	495,085
Grants in lieu of municipal taxes	93,175	35,464
Deferred revenues	278,696	255,783
Current portion of loans from Canada	200,622	124,836
	1,349,182	911,168
Accrued employee benefits	107,324	87,764
Loans from Canada (Note 5)	3,132,162	2,332,784
	4,588,668	3,331,716
EQUITY		
Contributed capital	10,131,636	10,131,636
Surplus	2,160,711	2,100,188
	12,292,347	12,231,824
	16,881,015	15,563,540

Contingencies (Note 6)

On behalf of the Board:

FRED MILLEY
Chairman

DAVID J. FOX
Port Manager and Chief Executive Officer

ST. JOHN'S PORT CORPORATION—*Continued*

STATEMENT OF INCOME AND SURPLUS
YEAR ENDED DECEMBER 31, 1988

	1988	1987
	$	$
Revenue from operations	2,707,306	2,433,220
Operating and administrative expenses	1,718,025	1,527,745
Depreciation	747,357	808,049
Grants in lieu of municipal taxes	57,711	52,224
	2,523,093	2,388,018
Income from operations	184,213	45,202
Investment income	135,778	230,480
Interest expense	(259,468)	(146,785)
Net income	60,523	128,897
Surplus, beginning of year	2,100,188	2,123,765
	2,160,711	2,252,662
Dividend to Canada		152,474
Surplus, end of year	2,160,711	2,100,188

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1988

	1988	1987
	$	$
Cash provided from (used for)		
Operating activities		
Net income	60,523	128,897
Depreciation	747,357	808,049
Other non-cash items	5,199	7,938
	813,079	944,884
Changes in		
Accounts receivable	(76,961)	10,925
Accounts payable and accrued liabilities	281,604	215,054
Grants in lieu of municipal taxes	57,711	(65,226)
Deferred revenues	22,913	84,364
Current portion of loans from Canada	75,786	68,003
	1,174,132	1,258,004
Financing activities		
Loans from Canada	799,378	875,164
Dividend to Canada		(152,474)
	799,378	722,690
Investing activities		
Proceeds on disposal of investments		936,295
Proceeds on disposal of fixed assets	20,283	57,900
Purchase of fixed assets	(984,699)	(5,040,968)
	(964,416)	(4,046,773)
Net cash provided (used)	1,009,094	(2,066,079)
Cash and short-term investments, beginning of year	947,142	3,013,221
Cash and short-term investments, end of year	1,956,236	947,142

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988

1. In accordance with the Canada Ports Corporation Act, a petition for the establishment of a local port corporation at the Port of St. John's was approved and the St. John's Port Corporation was established effective June 1, 1985.

In accordance with the Canada Ports Corporation Act, the assets, liabilities and equity were transferred at their carrying values in the accounts of the Canada Ports Corporation—Port of St. John's to the St. John's Port Corporation.

2. Significant accounting policies

(a) Investments

The investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. Premiums or discounts are amortized over the periods to maturity.

(b) Fixed assets

Fixed assets are recorded at cost except for those transferred to the Corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

Depreciation is recorded on the straight-line basis for the full year, commencing with the year the asset becomes operational, using rates indicated in Note 4.

(c) Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions for pensions are recognized in the accounts on a current basis.

(d) Grants in lieu of municipal taxes

The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the Municipal Grants Act. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

(e) Employee benefits

The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees in subsequent years in accordance with its policy.

3. Investments

	1988		1987	
	Amortized cost	Face amount	Amortized cost	Face amount
	$	$	$	$
Short-term	1,920,228	1,935,300	863,594	897,300

ST. JOHN'S PORT CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988—*Concluded*

4. Fixed assets

	1988				1987
	Depreciation rate	Cost	Accumulated depreciation	Net book value	Net book value
	%	$	$	$	$
Land		4,643,700		4,643,700	4,643,700
Berthing structures	2.5-10	8,170,054	5,404,346	2,765,708	2,821,573
Buildings	2.5-10	1,615,922	1,225,289	390,633	421,406
Utilities	3.3-10	3,123,735	675,359	2,448,376	2,580,329
Roads and surfaces	2.5-10	4,173,992	896,653	3,277,339	3,586,506
Machinery and equipment	5-100	222,257	77,441	144,816	145,948
Office furniture and equipment	20	159,543	113,837	45,706	63,275
Projects under construction		847,317		847,317	69,438
		22,956,520	8,392,925	14,563,595	14,332,175

5. Loans from Canada

	1988	1987
	$	$
Loans bearing interest at 9.33% and 10.015%, maturing in 1997 and 2000, repayable in equal instalments of principal and interest of $521,516	3,332,784	2,457,620
Principal instalments payable within one year	200,622	124,836
	3,132,162	2,332,784

The loans are unsecured.

Annual principal repayments in each of the next five years are as follows: 1989—$200,622; 1990—$220,036; 1991—$241,331; 1992—$264,689; 1993—290,309.

6. Contingent liabilities

Claims aggregating approximately $364,000 arising from alleged damages suffered on the Corporation's property have been received by the Corporation. The Corporation is a third party defendant, and has denied any liability, and no material loss is anticipated.

In addition, claims aggregating approximately $170,000 have been received arising from quantity overruns on capital projects. The Corporation is disputing these claims and no material loss is anticipated.

7. Subsequent event

Subsequent to the balance sheet date, the Corporation received approval of a capital grant in the amount of $3,400,000 from the federal government. The funds will be advanced to the Corporation over the years 1989 to 1991, and will be used to extend and upgrade port facilities.

SUMMARY PAGE

ST. LAWRENCE SEAWAY AUTHORITY, THE

MANDATE

Construction, operation and maintenance of canals, bridges, works and other property related to the deep waterway between the Port of Montreal and Lake Erie, known as the St. Lawrence Seaway.

BACKGROUND

The St. Lawrence Seaway Authority was established in 1954 to construct and operate the Seaway in conjunction with an appropriate authority in the United States and to construct, maintain and operate bridges and other works and property incidental thereto as the Governor in Council may deem to be necessary. The Authority operates 13 locks and related works in Canadian territory along the waterway, as well as four high-level bridges traversing the St. Lawrence River. Two locks in the United States are operated by the St. Lawrence Seaway Development Corporation.

A wholly-owned subsidiary, the Seaway International Bridge Corporation, Ltd. was established in 1962 to manage the international bridge at Cornwall, Ontario. A second wholly-owned subsidiary, the Jacques Cartier and Champlain Bridges Incorporated was established to manage the two high-level bridges in Montreal when these were transferred from the National Harbours Board in 1978. A third wholly-owned subsidiary, Great Lakes Pilotage Authority, Ltd. is a parent Crown corporation for the purposes of the *Financial Administration Act*. The Canadian span of the Thousand Islands Bridge at Lansdowne, Ontario has been directly administered by the Authority since this property reverted to Canada in 1976.

CORPORATION DATA

HEAD OFFICE	360 Albert Street Ottawa, Ontario K1R 7X7
STATUS	— Schedule III, Part I — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Benoît Bouchard, P.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1954; pursuant to section 3 of the *St. Lawrence Seaway Authority Act* (R.S.C. 1985, c. S-2).
CHIEF EXECUTIVE OFFICER	W.A. O'Neil
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) Financial years ending March 31.

	1989	1988	1987**	1986
At the end of the period				
Total Assets	604.5	603.0	652.8	645.3
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil*	210.0	210.0
Equity of Canada	576.5	576.8*	417.2	407.7
Cash from Canada in the period				
— budgetary	25.4	24.5	13.2	nil
— non-budgetary	nil	nil	nil	nil

* Obligations to Canada were forgiven by Transport vote 2c, 1987-88. This resulted in some reduction of corporation Fixed Assets, because a portion of the interest obligation had been capitalized, but mostly it added to the Equity of Canada.

** These data do not reflect restatement of this year's accounts in the corporation's 1987-88 Annual Report.

THE ST. LAWRENCE SEAWAY AUTHORITY

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have examined the balance sheet of The St. Lawrence Seaway Authority as at March 31, 1989 and the statements of operations, deficit and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Authority as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, The St. Lawrence Seaway Authority Act and the by-laws of the Authority.

D. Larry Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 12, 1989

BALANCE SHEET AS AT MARCH 31, 1989
(in thousands of dollars)

ASSETS	1989	1988
Current		
Cash and term deposits	15,557	13,417
Accounts receivable	8,692	7,283
Accrued interest receivable	1,143	1,526
Supplies inventory	2,841	2,846
	28,233	25,072
Long-term receivables (Note 3)	149	203
Investments		
Long-term investments (Note 4)	41,440	32,940
Subsidiary companies (Note 5)	10	10
	41,450	32,950
Fixed (Note 6)	534,711	544,731
	604,543	602,956

LIABILITIES	1989	1988
Current		
Accounts payable and accrued liabilities	15,831	14,046
Long-term		
Accrued employee termination benefits (Note 4)	12,244	12,120
	28,075	26,166
Contingencies (Note 10)		
EQUITY OF CANADA		
Contributed capital (Note 7)	624,950	624,950
Deficit	(48,482)	(48,160)
	576,468	576,790
	604,543	602,956

Approved:

W.A. O'NEIL
President

R.J. FORGUES
Comptroller and Treasurer

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1989
(in thousands of dollars)

	1989					1988
	Montreal-Lake Ontario Section	Welland Section	Total Seaway	Thousand Islands Bridge	Total	Total
Revenues						
Tolls	27,310	32,697	60,007		60,007	55,628
Leases and licenses	690	2,643	3,333	362	3,695	3,258
Other	706	651	1,357	1,256	2,613	2,964
	28,706	35,991	64,697	1,618	66,315	61,850
Expenses						
Operating	6,368	10,394	16,762		16,762	16,674
Maintenance	10,727	12,452	23,179	234	23,413	22,552
Administration	4,947	5,270	10,217	38	10,255	9,952
Headquarters	4,141	5,218	9,359	36	9,395	8,872
Depreciation	4,738	5,726	10,464	32	10,496	10,043
Employee termination benefits	606	891	1,497		1,497	1,758
Other expenses	344	137	481		481	1,058
	31,871	40,088	71,959	340	72,299	70,909
Income (loss) from operations	(3,165)	(4,097)	(7,262)	1,278	(5,984)	(9,059)
Investment income	2,365	2,980	5,345	317	5,662	4,640
Net income (loss) for the year	(800)	(1,117)	(1,917)	1,595	(322)	(4,419)

STATEMENT OF DEFICIT
FOR THE YEAR ENDED MARCH 31, 1989
(in thousands of dollars)

	1989			1988
	Seaway	Thousand Islands Bridge	Total	Total
Deficit (retained earnings), beginning of the year	51,923	(3,763)	48,160	220,919
Loss (net income) for the year	1,917	(1,595)	322	4,419
Forgiveness of deferred interest (Note 7)				(177,178)
Deficit (retained earnings), end of the year	53,840	(5,358)	48,482	48,160

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1989
(in thousands of dollars)

	1989			1988
	Seaway	Thousand Islands Bridge	Total	Total
Cash provided by (used in)				
Operating activities				
Income (loss) for the year	(1,917)	1,595	(322)	(4,419)
Items not involving cash				
(Profit) loss on disposal of fixed assets	153		153	(20)
Depreciation	10,464	32	10,496	10,043
Provision for termination benefits	1,497		1,497	1,758
Net change in working capital components other than cash and term deposits	995	(1,604)	(609)	(559)
Cash provided by operating activities	11,192	23	11,215	6,803
Financing activities				
Funding from Federal Government for Welland Canal Rehabilitation Program	25,400		25,400	24,500
Cash provided by financing activities	25,400		25,400	24,500
Investing activities				
Reduction in long-term receivables	54		54	54
Purchase of investments	(21,500)		(21,500)	(9,053)
Purchase of fixed assets	(26,256)	(23)	(26,279)	(26,598)
Proceeds from disposal of investments	13,000		13,000	6,716
Proceeds from disposal of fixed assets	250		250	61
Cash used in investing activities	(34,452)	(23)	(34,475)	(28,820)
Increase in cash	2,140		2,140	2,483
Cash and term deposits at beginning of year	13,417		13,417	10,934
Cash and term deposits at end of year	15,557		15,557	13,417
Working capital position at end of year				
Current assets	28,233		28,233	25,072
Current liabilities	19,925	(4,094)	15,831	14,046
	8,308	4,094	12,402	11,026

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989

1. Authority and objectives

The St. Lawrence Seaway Authority was established in 1954 under The St. Lawrence Seaway Authority Act and is classified as a parent Crown corporation under Schedule III Part I of the Financial Administration Act.

The Authority was established to construct and operate a deep waterway between the Port of Montreal and Lake Erie together with such works and other property, including bridges incidental to the deep waterway, as deemed necessary by the Governor in Council.

Under the St. Lawrence Seaway Act the Authority must file the tariff of tolls with the National Transportation Agency. This tariff of tolls then becomes operative from the date of filing.

2. Accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. A summary of significant accounting policies follows:

(a) Supplies inventory

Supplies inventory comprises equipment and supplies used in the operation and maintenance of the Seaway and is recorded at cost.

(b) Investments in subsidiary companies

Investments in wholly-owned subsidiary companies are recorded at cost. The financial statements of the subsidiary companies have not been consolidated in these financial statements because changes in the equity of the subsidiaries do not accrue to the Authority. Separate audited financial statements for each of the subsidiary companies are available to the public.

(c) Fixed assets

Fixed assets are recorded at cost. Replacements and major improvements which increase the capacity of the deep waterway system or extend the estimated useful lives of existing assets are capitalized. Repairs and maintenance are charged to operations as incurred and major betterments incurred to assure the reliability of the system are capitalized. The cost of assets sold, retired, or abandoned, and the related accumulated depreciation are removed from the accounts on disposal. Gains or losses on disposals are credited or charged to operations.

Depreciation is recorded using the straight-line method based on the estimated useful lives of the assets.

(d) Welland Canal Rehabilitation Program

Funding received from the Government of Canada towards this program is accounted for by crediting the amount against the costs of related capital projects undertaken during the year, with depreciation to be calculated on the net amount.

(e) Employee termination benefits

Employees of the Authority are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these benefits is recorded in the accounts as the benefits accrue to employees.

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 1989—*Continued*

(f) Pension plan

All employees of the Authority are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. These contributions represent the total liability of the Authority and are recognized in the accounts on a current basis.

(g) Employee life insurance plan

The Authority provides an annual life insurance plan for its employees on a self-insurance basis. Surpluses, premiums and deficits from the plan are included in revenues and/or expenses in the year in which they apply.

(h) Thousand Islands Bridge

In September 1976, the Minister of Transport entrusted the Authority with the management and operation of the Thousand Islands Bridge, while the real property was vested in the name of Her Majesty in Right of Canada. Subsequent capital expenditures made by the Authority to improve the Bridge have been recorded as fixed assets. The retained earnings of the Bridge represent its cumulative earnings since September 1976.

These financial statements have segregated the operations of the Thousand Islands Bridge on the premise that its management and operation by the Authority is independent of Seaway operations.

3. Long-term receivables

The Authority has entered into long-term contractual agreements for the sale of one parcel of land and for the recovery of costs associated with the construction of certain facilities. Long-term receivables outstanding at March 31 are as follows:

	1989	1988
	(in thousands of dollars)	
5 1/2% interest, recoverable in blended annual installments of $28,000, maturing in 1995	115	135
Non-interest bearing, recoverable in annual installments of $33,952, maturing in 1990	34	68
	149	203

4. Long-term investments

In order to provide for major capital improvement projects of The St. Lawrence Seaway and the rehabilitation of the Canadian span at the Thousand Islands Bridge and for future employee termination benefits, the Authority has set aside the following long-term investments:

	1989	1988
	(in thousands of dollars)	
Capital improvement		
Canada Bonds		
Cost, maturing on varying dates up to 1995		
Par value $15,000 (1988—$15,000)		
Market value $14,459 (1988—$15,117)	14,940	14,940
Treasury Bills, maturing May 1989		
Market value $8,500	8,500	
Investment Certificates, maturing March 1990		
Market value $5,000 (1988—$5,000)	5,000	5,000
	28,440	19,940
Termination benefits		
Deposit with Consolidated Revenue Fund		13,000
Treasury Bill, maturing May 1989		
Market value $13,000	13,000	
	41,440	32,940

5. Subsidiary companies and related parties

Investments in wholly-owned subsidiary companies consist of the following:

	Number of shares	Cost
		$
Great Lakes Pilotage Authority, Ltd. (GLPA)	15	1,500
The Jacques Cartier and Champlain Bridges Incorporated (JCCB)	1	100
The Seaway International Bridge Corporation, Ltd. (SIBC)	8	8,000
		9,600

During the year ended March 31, 1989, the Authority provided JCCB with certain administration services for which it charged $745,000 (1988—$627,000). At March 31, 1989, $189,000 was outstanding (1988—$79,000).

Each calendar year, SIBC pays a bridge user charge to the Authority (1988—$182,580; 1987—$368,000) to amortize the Authority's construction and interest costs related to the North Channel Bridge. At March 31, 1989, $5.6 million (1988—$5.8 million) in construction costs remained unamortized. During the 1987 year, a reduction of $5.3 million was caused by the cancellation of interest, as explained in Note 7.

The Canadian Coast Guard provides the Authority with navigational aids services. The fee paid by the Authority for this service during the year amounted to $545,000 (1988—$525,000).

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 1989—*Concluded*

6. Fixed assets

		1989			1988
	Depreciation rate	Cost	Accumulated depreciation	Net	Net
		(in thousands of dollars)			
Seaway					
Land		30,100		30,100	30,324
Channels and canals	1%	249,108	71,166	177,942	180,433
Locks	1%	236,814	87,512	149,302	151,614
Bridges and tunnels ...	2%	101,428	43,881	57,547	50,415
Buildings ...	2%	12,045	6,740	5,305	5,476
Equipment ..	2-20%	28,064	13,126	14,938	15,046
Remedial works	1%	121,458	24,114	97,344	107,720
Works under construction		969		969	2,430
		779,986	246,539	533,447	543,458
Thousand Islands Bridge Improvements	2%	1,575	311	1,264	1,273
		781,561	246,850	534,711	544,731

Welland Canal Rehabilitation Program

In 1985, the Authority engaged consultants to examine in detail, and report on, the structural condition of the Welland Canal system. The report was submitted during 1986 and, as a result, a seven-year $175 million rehabilitation program has been devised to refit the Welland Canal and ensure a continued safe and reliable waterway into the 21st century. The program consists of refurbishing of lock walls, stabilizing the canal banks and approach walls, and rehabilitating ancillary structures.

During 1986, the Government of Canada approved funding to finance the Welland Canal Rehabilitation Program for an amount not to exceed $175 million over a period of seven years as follows:

	(in millions of dollars)
1986-87	13.2
1987-88	24.5
1988-89	25.4
1989-90	26.9
1990-91	27.3
1991-92	28.7
1992-93	29.0
Total	175.0

To date the federal government funding has amounted to $63.1 million, all of which has been spent on the program and has been deducted from related works under construction. As at March 31, 1989, $57.107 million of the approved amount for the first three years was received. The balance of $5.993 million is included in accounts receivable.

7. Contributed capital

As of April 1, 1977, loans from Canada of $624.95 million were converted to equity by parliamentary appropriation. This amount was recorded as contributed capital. The unpaid interest of $210 million on these loans was not converted and was reflected on the balance sheet as deferred interest.

In December 1987, through Transport Vote 2c, both the contributed capital and deferred interest were forgiven by Government of Canada.

The Authority accounted for the deletion of deferred interest through a reduction of its 1987-88 deficit by $177.2 million as well as write-down of fixed assets by $32.8 million representing interest capitalized during construction.

The parliamentary appropriation authorizing the 1977 conversion of loans from Canada to equity also authorized the Minister to fix, from time to time, the amount that shall be paid by the Authority annually out of its toll revenue as a return on capital. No return on capital has been required to be paid for the years ended March 31, 1989 and 1988.

8. Income taxes

The Authority, as a prescribed Federal Crown corporation, is subject to the provisions of the Income Tax Act. The Authority is not subject to any provincial income taxes.

The Authority is of the opinion that the forgiveness of deferred interest by the Government of Canada (see Note 7) will not result in any tax liability. Currently, discussions are continuing between the Authority and the Department of National Revenue to resolve the matter.

Currently, undepreciated capital cost for tax purposes is in excess of the net book value of fixed assets by approximately $219 million. The tax effect of this excess has not been recorded in the accounts of the Authority. Should the Authority not receive a positive ruling, this excess would be reduced by approximately $210 million. The Authority has also accumulated research and development costs of approximately $4 million which are available to reduce the taxable income of future years.

Accordingly, no current or deferred tax liability has been set up.

9. Commitments

At March 31, 1989, contractual obligations for capital and other expenditures, including Welland Canal Rehabilitation Program, amounted to $3.1 million (1988—$1.7 million).

The Authority is committed to make future minimum operating lease payments, required for office space for a term in excess of one year, as follows:

	(in thousands of dollars)
1989-90	269
1990-91	269
1991-92	269
1992-93	269
1993-94	269
Subsequent years	694

10. Contingencies

There is a total of $77.1 million in claims instituted against the Authority. These arise from a breakdown of the Valleyfield bridge in November 1984, an October 1985 Lock 7 wall blowout, compensation and damages in connection with the expropriation of lands and various other claims. The Authority is contesting all these claims and their outcome cannot be determined at this time although management is of the opinion that these actions will not result in any material losses to the Authority. The Authority is also the claimant in certain other pending or threatened claims and lawsuits.

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

APPENDIX 1

THE JACQUES CARTIER AND CHAMPLAIN BRIDGES INCORPORATED

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have examined the balance sheet of The Jacques Cartier and Champlain Bridges Incorporated as at March 31, 1989 and the statements of operations, deficit, contributed capital and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations and the charter and by-laws of the Corporation.

Raymond Dubois, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 5, 1989

BALANCE SHEET AS AT MARCH 31, 1989

ASSETS	1989	1988
	$	$
Current		
Cash and term deposits	3,765,770	4,245,813
Accounts receivable	71,539	151,585
Due from Canada	2,154,751	1,433,752
	5,992,060	5,831,150
Fixed		
Land	3,771,945	3,785,545
Bridges	73,276,394	73,276,394
Vehicles and equipment	822,152	771,958
	77,870,491	77,833,897
Less: accumulated depreciation	59,907,062	58,785,047
	17,963,429	19,048,850
	23,955,489	24,880,000

LIABILITIES	1989	1988
	$	$
Current		
Accounts payable	2,266,766	2,219,766
Due to parent company	189,091	70,208
Deferred revenues	344,687	349,660
	2,800,544	2,639,634
Long-term		
Provision for employee termination benefits	646,204	601,904
	3,446,748	3,241,538
SHAREHOLDER'S EQUITY		
Capital stock		
Authorized—50 shares without par value		
Issued and fully paid—1 share	100	100
Contributed capital	32,592,693	32,584,464
Deficit	(12,084,052)	(10,946,102)
	20,508,741	21,638,462
	23,955,489	24,880,000

Approved by the Board:

WILLIAM A. O'NEIL
Director

ROGER FORGUES
Director

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

APPENDIX 1—*Continued*

THE JACQUES CARTIER AND CHAMPLAIN BRIDGES INCORPORATED—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1989

	Jacques Cartier Bridge	Champlain Bridge	Total 1989	Total 1988
	$	$	$	$
Revenues				
Tolls		7,874,963	7,874,963	7,642,908
Interest	53,796	319,887	373,683	298,800
Other	176,393	104,790	281,183	153,806
	230,189	8,299,640	8,529,829	8,095,514
Expenses				
Maintenance	4,155,842	6,891,857	11,047,699	7,406,829
Operation	1,228,408	3,240,883	4,469,291	4,515,378
Administration	589,628	1,542,354	2,131,982	2,138,105
Depreciation	80,920	1,052,230	1,133,150	1,121,297
	6,054,798	12,727,324	18,782,122	15,181,609
Loss before unusual item	5,824,609	4,427,684	10,252,293	7,086,095
Unusual item—Licensee revenue from prior years	501,822		501,822	
Loss for the year	5,322,787	4,427,684	9,750,471	7,086,095

STATEMENT OF DEFICIT
FOR THE YEAR ENDED MARCH 31, 1989

	1989	1988
	$	$
Balance at beginning of the year	10,946,102	16,426,194
Write-off of accrued interest previously charged to operations (Note 7)		6,562,903
	10,946,102	9,863,291
Loss for the year	9,750,471	7,086,095
	20,696,573	16,949,386
Parliamentary appropriation—Operations	8,612,521	6,003,284
Balance at end of the year	12,084,052	10,946,102

STATEMENT OF CONTRIBUTED CAPITAL
FOR THE YEAR ENDED MARCH 31, 1989

	1989	1988
	$	$
Balance (deficiency) at beginning of the year	32,584,464	(71,713,153)
Write-off of debts due to Canada assumed at the creation of the Corporation (Note 7)		104,193,149
	32,584,464	32,479,996
Parliamentary appropriation—Fixed assets	8,229	104,468
Balance at end of the year	32,592,693	32,584,464

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1989

	1989	1988
	$	$
Operating activities		
Net loss for the year	(9,750,471)	(7,086,095)
Non-cash items		
Depreciation	1,133,150	1,121,297
Increase (decrease) in the provision for employee termination benefits	44,300	(38,486)
Gain on disposal of fixed assets	(39,500)	
	(8,612,521)	(6,003,284)
Changes in non-cash items of working capital	240,956	798,211
	(8,371,565)	(5,205,073)
Investing activities		
Additions to fixed assets	(61,329)	(104,686)
Proceeds from the disposal of fixed assets	53,100	218
	(8,229)	(104,468)
Financing activities		
Parliamentary appropriation	8,620,750	6,107,752
Cash and cash equivalents		
Increase for the year	240,956	798,211
Balance at beginning of the year	5,679,565	4,881,354
Balance at end of the year (*)	5,920,521	5,679,565
(*) Cash and term deposits	3,765,770	4,245,813
Due from Canada	2,154,751	1,433,752
	5,920,521	5,679,565
Working capital position at year-end		
Current assets	5,992,060	5,831,150
Current liabilities	2,800,544	2,639,634
	3,191,516	3,191,516

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989

1. Authority and activities

The Jacques Cartier and Champlain Bridges Incorporated was established under the Canada Business Corporations Act on November 3, 1978 and is a wholly-owned subsidiary of The St. Lawrence Seaway Authority, which is a Crown corporation named in Part I of Schedule III to the Financial Administration Act.

The Corporation is partially dependent on the Government of Canada for its financing.

Effective December 1, 1978, the Corporation assumed the responsibility for the operation, maintenance and control of the Jacques Cartier and Champlain bridges and of a portion of the Bonaventure Autoroute, situated in the Montreal area.

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

APPENDIX 1—*Concluded*

THE JACQUES CARTIER AND CHAMPLAIN BRIDGES INCORPORATED—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989—*Concluded*

2. Significant accounting policies

(a) Fixed assets

Fixed assets acquired from the National Harbours Board (now Canada Ports Corporation) on December 1, 1978 were recorded at their then book values with an offset to contributed capital. Subsequent additions are recorded at cost.

Fixed assets are depreciated over their estimated economic lives using the straight-line method, at the following rates:

Jacques Cartier Bridge	4.8%
Champlain Bridge	2.5%
Vehicles and equipment	10% and 20%

The cost of the portion of the Bonaventure Autoroute for which the Corporation is responsible and the initial cost of the Jacques Cartier Bridge are fully depreciated.

(b) Parliamentary appropriation

The amount of the parliamentary appropriation used to cover the loss for the year is reflected in the statement of deficit. In this regard, operating expenses do not include depreciation and any change in the provision for employee termination benefits.

The portion of the parliamentary appropriation used to finance the acquisition of fixed assets is recorded as contributed capital.

Any balance of the parliamentary appropriation required to finance the loss for the year and not received at the year-end is shown as an amount due from Canada. Any parliamentary appropriation received in excess of requirements is recorded as due to Canada. It is the Corporation's policy to reimburse this amount in the following fiscal year.

(c) Deferred revenues

The estimated value of unredeemed toll tokens and tickets as well as rental revenues collected in advance are recorded as deferred revenues.

(d) Employee termination benefits

On termination of employment, employees are entitled to certain benefits provided under their collective agreements and their conditions of employment. The cost of these benefits is expensed in the year in which they are earned.

(e) Pension plan

Employees participate in the Superannuation Plan administered by the Government of Canada. The employees and the Corporation contribute equally to the cost of the Plan. This contribution represents the total liability of the Corporation. Contributions in respect of current service and of admissible past service are expensed when paid. The terms of payment of past service contributions are set by the applicable purchase conditions, generally over the number of years of service remaining prior to retirement.

(f) Expenses

Expenses incurred with respect to the portion of the Bonaventure Autoroute for which the Corporation is responsible are included with those for the Champlain Bridge.

(g) Income tax

As a federal Crown corporation, the Corporation is not subject to provincial income tax. However, it is subject to the federal Income Tax Act from the fact that its parent Corporation has been prescribed by regulation under that Act.

3. Related party transactions

Related party transactions not otherwise disclosed in these financial statements are as follows:

Operation services are received from the Montreal Port Corporation. The amount invoiced for regular services for the year ended March 31, 1989 amounts to $2,227,475 ($2,148,445 for 1988), of which $191,136 was unpaid as at March 31, 1989 ($296,909 as at March 31, 1988).

Administrative services from the parent company amounted to $745,228 ($607,230 in 1988). As at March 31, 1989, an unpaid balance thereon of $188,600 ($62,070 in 1988) is included in the amount due to the parent company. The Corporation estimates the cost of such services for the next year to be approximately $660,000.

4. Commitments

(a) Leases

The aggregate minimum annual rental payments under long-term leases for equipment and premises through to April 30, 1992 are approximately $290,000 on an annual basis.

(b) Operation services

The minimum amount which will be paid under an agreement for operation services during the period from July 1, 1989 to June 30, 1994 is $2,644,560 on an annual basis.

(c) Suppliers

At March 31, 1989, contractual obligations to suppliers amounted to $6,776,179.

5. Major maintenance

In its endeavour to keep the bridges and the autoroute in a good state of repair, to protect the public and serve traffic needs throughout the useful life of these installations, the Corporation must undertake major repairs, notably on the deck of both bridges. The cost of the work on the Champlain bridge is estimated at $29 million. With regard to the repairs to the Jacques Cartier bridge, the urgency and the nature of the work have yet to be defined; it is therefore not possible at this time to assess the cost of the program which will have to be carried out over a number of years. It is expected that the eventual cost of this program will be funded through parliamentary appropriations.

6. Contingencies

In connection with its operations, the Corporation is the claimant or defendant in certain pending claims and lawsuits. It is the opinion of management that these actions will not result in any material liabilities to the Corporation.

7. Forgiveness of debts due to Canada

Under an Act passed by Parliament on December 10, 1987 authorizing their forgiveness, the Corporation has written-off from its accounts the loans from Canada and the interest in arrears thereon aggregating $110,756,052. The portion of this amount representing the debts assumed at the time the Corporation was created, namely $104,193,149, has been offset to the capital deficiency. The balance of $6,562,903 representing interest subsequently charged to operations has been credited to the deficit.

The Corporation is of the opinion that the forgiveness of these liabilities shall not give rise to any income tax obligation. A ruling to this effect has been requested from the Department of National Revenue.

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

APPENDIX 2

THE SEAWAY INTERNATIONAL BRIDGE CORPORATION, LTD.

AUDITOR'S REPORT

TO THE MINISTER OF TRANSPORT

I have examined the balance sheet of The Seaway International Bridge Corporation, Ltd. as at December 31, 1988 and the statements of operations and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Canada Business Corporations Act, The St. Lawrence Seaway Authority Act and by-laws of the Corporation.

Raymond Dubois, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
February 17, 1989

BALANCE SHEET AS AT DECEMBER 31, 1988

ASSETS	1988	1987
	$	$
Current		
Cash and short-term deposits	156,626	362,010
Accounts receivable	10,031	12,138
	166,657	374,148
Fixed		
Cost	429,645	388,930
Less: accumulated depreciation	175,217	143,432
	254,428	245,498
	421,085	619,646

LIABILITIES	1988	1987
	$	$
Current		
Accounts payable and accrued liabilities	43,738	108,062
Due to The St. Lawrence Seaway Authority	32,580	168,458
Deferred revenue	21,173	21,261
	97,491	297,781
Long-term		
Accrued employee termination benefits	307,594	305,865
Debentures payable (Note 3)	8,000	8,000
	315,594	313,865
	413,085	611,646
SHAREHOLDER'S EQUITY		
Capital stock		
Authorized—An unlimited number of common shares		
Issued and fully paid—8 shares	8,000	8,000
	421,085	619,646

Approved by the Board:

W.A. O'NEIL
President and Director

JAMES L. EMERY
Vice-President and Director

THE ST. LAWRENCE SEAWAY AUTHORITY—*Continued*

APPENDIX 2—*Continued*

THE SEAWAY INTERNATIONAL BRIDGE CORPORATION, LTD.—*Continued*

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1988

	1988	1987
	$	$
Revenues		
Tolls	1,611,911	1,545,605
Rentals	66,928	66,928
Interest	13,227	28,815
Other	7,095	9,917
	1,699,161	1,651,265
Expenses		
Salaries and employee benefits	1,055,889	964,252
Maintenance, materials and services	299,297	141,826
Insurance	49,981	71,619
Depreciation	33,621	13,265
Employee termination benefits	23,242	24,949
Electricity	17,954	16,745
Grants in lieu of municipal taxes	7,677	6,000
Rental of toll collection machines	5,928	14,235
Office supplies	4,733	6,528
Telephone	3,898	3,379
Travel	2,100	2,612
Advertising	1,334	380
Professional services	1,200	4,240
Other	9,727	12,777
	1,516,581	1,282,807
Excess of revenues over expenses due as bridge user charge (Note 4)	182,580	368,458

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1988

	1988	1987
	$	$
Operating activities		
Cash provided from (used in) operations		
Excess of revenues over expenses due as bridge user charge	182,580	368,458
Items not requiring cash		
Employee termination benefits	23,242	24,949
Depreciation	33,621	13,265
Loss on disposal of assets	727	
	240,170	406,672
Increase (decrease) in accounts payable and accrued liabilities	(64,324)	43,489
Decrease (increase) in accounts receivable	2,107	(3,161)
Decrease in deferred revenue	(88)	(708)
Payments of termination benefits	(21,513)	(12,731)
Payments to The St. Lawrence Seaway Authority for bridge user charge	(318,458)	(231,404)
	(162,106)	202,157
Investing activities		
Additions to fixed assets	(43,278)	(204,873)
Decrease in cash	(205,384)	(2,716)
Cash and short-term deposits, beginning of the year	362,010	364,726
Cash and short-term deposits, end of the year	156,626	362,010
Working capital position at year-end		
Current assets	166,657	374,148
Current liabilities	97,491	297,781
	69,166	76,367

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988

1. Authority and activities

The Seaway International Bridge Corporation, Ltd. is a Crown corporation pursuant to the Financial Administration Act and is a wholly-owned subsidiary of The St. Lawrence Seaway Authority, a parent Crown corporation named in Schedule III Part I of the aforementioned Act. The Corporation was incorporated under the Canada Corporations Act in 1962, continued under the Canada Business Corporations Act, and is subject to The St. Lawrence Seaway Authority Act. Its purpose is to operate and manage the international toll bridge system between Cornwall, Ontario, and Rooseveltown, New York, on behalf of The St. Lawrence Seaway Authority and its U.S. counterpart, the Saint Lawrence Seaway Development Corporation.

THE ST. LAWRENCE SEAWAY AUTHORITY—*Concluded*

APPENDIX 2—*Concluded*

THE SEAWAY INTERNATIONAL BRIDGE CORPORATION, LTD.—*Concluded*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988—*Concluded*

2. Accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. A summary of significant accounting policies follows:

Bridge user charge

As described in Note 4 to the financial statements, the Corporation is required to distribute as a bridge user charge its excess of revenues over expenses. Payments are dependent on the Corporation's ability to generate excess revenues. Accordingly, the unpaid balances to The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation are not recorded as a liability in the books of the Corporation.

Fixed assets and depreciation

Fixed assets are recorded at cost. The cost of the North Channel Bridge is recorded in the books of The St. Lawrence Seaway Authority and is being amortized over a period of 50 years. Costs incurred by the Corporation relating to the Bridge which do not extend its estimated useful life are expensed.

Depreciation is based on the estimated useful life of the assets calculated on the straight-line method at the following annual rates:

Automotive	20%
Maintenance equipment	10% to 20%
Office and toll equipment	10%
Bridge equipment	5%

Employee termination benefits

Employees are entitled to specified benefits on termination as provided for under the conditions of employment. The liability for these benefits is recorded in the accounts as the employees become entitled to the benefits.

Pension plan

Employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Corporation. These contributions represent the total pension liability of the Corporation and are recognized in the accounts on a current basis.

Deferred revenue

Revenue from unredeemed toll tokens and tickets is deferred.

Employee life insurance plan

The Corporation provides an annual life insurance plan for its employees on a self-insurance basis. Surpluses, premiums and deficits from the plan are included in revenues and/or expenses in the year in which they apply.

3. Debentures payable

These debentures, due on December 31, 2012, are non-interest bearing and payable to the Saint Lawrence Seaway Development Corporation.

4. Bridge user charge

By agreement between The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation, the annual excess of revenues over expenses of the Corporation is due as a bridge user charge; first, to the Authority to offset the amortization of the cost of the North Channel Bridge together with interest; then to the Saint Lawrence Seaway Development Corporation to offset the amortization of a $300,000 contribution towards the cost of the Raquette River Bridge; and the balance, if any, is then divided equally between both parties.

As referred in Note 2, the cost of the North Channel Bridge is recorded in the books of The St. Lawrence Seaway Authority. In December 1987, the Government of Canada, through Department of Transport Vote 2c of Supplementary Estimates (C) 1987-88, has forgiven debt and related unpaid accrued interest due by The St. Lawrence Seaway Authority. Accordingly, unpaid interest by the Corporation amounting to $5,290,810 has been forgiven by the Authority and deducted from the unpaid balance of the total cost of the North Channel Bridge.

All bridge user charges since the commencement of the Corporation's operations have been paid to The St. Lawrence Seaway Authority. At December 31, the unpaid balance of the total cost of the North Channel Bridge was as follows:

	1988	1987
	$	$
Cost of construction	8,539,695	8,539,695
Interest	2,569,652	7,860,462
	11,109,347	16,400,157
Less: interest forgiven		5,290,810
	11,109,347	11,109,347
Less: bridge user charges		
Beginning of year	5,297,974	4,929,516
Current charge	182,580	368,458
End of year	5,480,554	5,297,974
Unpaid balance to The St. Lawrence Seaway Authority	5,628,793	5,811,373

5. Bridge use

With the approval of the National Transportation Agency of Canada, the Corporation has continued the practice of providing free usage of the bridge system to certain North American Indians. This represents a substantial portion of the Bridge traffic.

6. Related party transactions

In addition to the transactions disclosed elsewhere in these financial statements, The St. Lawrence Seaway Authority provides to the Corporation, without charge, certain engineering and administrative support services.

SUMMARY PAGE

STANDARDS COUNCIL OF CANADA

MANDATE

To foster and promote voluntary standardization in fields relating to the construction, manufacture, production, quality, performance and safety of buildings, structures, manufactured articles and products, and other goods not expressly provided for by law, as a means of advancing the national economy, benefiting the public protecting consumers and facilitating trade, and furthering international cooperation in relation to standards.

BACKGROUND

The Council coordinates the activities of organizations involved in standardization in Canada, and represents Canada in international standardization organizations.

CORPORATION DATA

HEAD OFFICE	Suite 1200 350 Sparks Street Ottawa, Ontario K1P 6N7
STATUS	— Schedule III, Part I — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Harvie Andre, P.C., M.P.
DEPARTMENT	Consumer and Corporate Affairs
YEAR AND MEANS OF INCORPORATION	1970; by the *Standards Council of Canada Act* (R.S.C. 1985, c. S-16).
CHIEF EXECUTIVE OFFICER	John R. Woods
CHAIRMAN	Georges Archer
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) Financial years ending March 31.

	1989	1988	1987	1986
At the end of the period				
Total Assets	1.6	1.7	3.0	3.3
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	0.7	0.7	1.9	2.2
Cash from Canada in the period				
— budgetary	6.9	6.5	6.7*	4.5*
— non-budgetary	nil	nil	nil	nil

* Net of amounts returned to Canada (1985-86, $0.9 million; 1986-87, $0.2 million).

STANDARDS COUNCIL OF CANADA

AUDITOR'S REPORT

TO THE STANDARDS COUNCIL OF CANADA
AND THE
MINISTER OF CONSUMER AND CORPORATE AFFAIRS

I have examined the balance sheet of the Standards Council of Canada as at March 31, 1989 and the statements of operations, surplus and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Council as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Council that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Standards Council of Canada Act and by-laws of the Council.

D. L. Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 17, 1989

BALANCE SHEET MARCH 31, 1989

ASSETS	1989	1988
	$	$
Current		
Cash	546,049	603,636
Accrued interest	7,218	5,601
Accounts receivable		
Government of Canada	470,985	359,267
Other	123,675	147,011
Prepaid expenses	214,471	295,914
	1,362,398	1,411,429
Fixed		
Office furniture and equipment (Note 3)	244,373	316,168
	1,606,771	1,727,597

LIABILITIES	1989	1988
	$	$
Current		
Accounts payable and accrued liabilities	606,407	578,425
Customer and other deposits	51,369	134,981
Deferred sales revenue		63,893
	657,776	777,299
Long-term		
Provision for employee termination benefits	256,453	207,564
	914,229	984,863
EQUITY OF CANADA		
Surplus	692,542	742,734
	1,606,771	1,727,597

Approved by the Council:

GEORGES ARCHER
President

JOHN WOODS
Executive Director

STANDARDS COUNCIL OF CANADA—*Continued*

STATEMENT OF OPERATIONS FOR THE YEAR ENDED MARCH 31, 1989

	1989	1988
	$	$
Expenses		
Salaries, wages and employee benefits	2,922,552	2,876,058
Travel	1,166,126	997,016
Membership in international organizations	806,803	836,659
Direct cost of standards purchases	727,510	713,879
Publications and printing	658,892	700,023
Office accommodation	436,887	432,179
Financial assistance to standards-writing organizations	400,000	611,134
Telephone and postage	265,697	251,045
Public relations	189,171	318,418
International secretariat costs	187,284	185,334
Meetings	135,417	84,274
Professional and special services	127,712	164,935
Depreciation	115,391	133,239
Rental of office equipment	99,339	69,892
Office supplies	41,711	39,466
Other	180,065	134,777
Relocation of Mississauga Office (Note 5)		512,750
	8,460,557	9,061,078
Less: GATT Enquiry Point operating costs recovered from Department of External Affairs	364,311	345,550
costs of development assistance programs recovered from Canadian International Development Agency (CIDA)	61,684	43,953
	8,034,562	8,671,575
Revenues		
Sale of standards	917,812	839,191
Interest income	64,241	67,740
Other	78,421	54,598
	1,060,474	961,529
Cost of operations	6,974,088	7,710,046
Parliamentary appropriation		
Consumer and Corporate Affairs Vote 25	6,923,896	6,531,000
Deficiency of parliamentary appropriation over cost of operations for the year	(50,192)	(1,179,046)

STATEMENT OF SURPLUS FOR THE YEAR ENDED MARCH 31, 1989

	1989	1988
	$	$
Unappropriated		
Balance at beginning of the year	742,734	1,332,061
Deficiency of parliamentary appropriation over cost of operations for the year	(50,192)	(1,179,046)
Released during the year		589,719
Balance at end of the year	692,542	742,734
Appropriated		
Balance at beginning of the year		589,719
Less: released during the year		(589,719)
Balance at end of the year		
	692,542	742,734

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1989

	1989	1988
	$	$
Operating activities		
Deficiency of parliamentary appropriation over cost of operations for the year	(50,192)	(1,179,046)
Items not requiring an outlay of cash		
Depreciation	115,391	133,239
Depreciation charges recovered from GATT Enquiry Point	24,000	12,000
Employee termination benefits accrued	57,684	65,396
	146,883	(968,411)
Payment of employee termination benefits	(8,795)	(144,650)
Changes in current liabilities and current assets other than cash	(128,079)	(34,944)
Cash provided from (used in) operating activities	10,009	(1,148,005)
Investing activities		
Purchase of office furniture and equipment	(67,596)	(72,738)
Decrease in cash during the year	(57,587)	(1,220,743)
Cash at beginning of the year	603,636	1,824,379
Cash at end of the year	546,049	603,636

STANDARDS COUNCIL OF CANADA—*Concluded*

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1989

1. Authority and objectives

The Standards Council of Canada was created by Parliament as a corporation under the Standards Council of Canada Act in 1970 to be the national co-ordinating body for voluntary standardization. The Council is a Crown corporation named in Part I of Schedule III to the Financial Administration Act. The Council carries out its task through the National Standards System, a federation of accredited organizations concerned with standards-writing, certification, and testing.

The objectives of the Council are to foster and promote voluntary standardization in fields relating to the construction, manufacture, production, quality, performance, and safety of buildings, structures, manufactured articles and products and other goods and to further international co-operation in the field of standards.

2. Significant accounting policies

(a) Office furniture and equipment

Office furniture and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful life of the assets as follows:

Furniture	5 years
Equipment	4 years

(b) Employee termination benefits

Employees are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these benefits is recorded in the accounts as the benefits accrue to the employees.

(c) Pension plan

Employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Council. Contributions with respect to current service are expensed on a current basis.

3. Office furniture and equipment

	1989			1988
	Cost	Accumulated depreciation	Net book value	Net book value
	$	$	$	$
Office furniture	161,349	118,231	43,118	47,034
Office equipment	661,849	460,594	201,255	269,134
	823,198	578,825	244,373	316,168

4. Lease commitment

The Council is leasing office space at its present location for a five-year term which commenced June 1, 1987. The future minimum annual rental under this agreement is $410,133.

5. Relocation

In 1987-88, Council's Mississauga office was closed and the operation was relocated and consolidated at the head office in Ottawa. This resulted in a one-time charge to operations of $512,750 for the year ended March 31, 1988.

SUMMARY PAGE

TELEGLOBE CANADA

MANDATE

Since 1949, to establish, maintain and operate, in Canada and elsewhere, international telecommunications services for the conduct of public communications; this mandate ended on April 3, 1987 with the sale of its business.

BACKGROUND

Originally the Canadian Overseas Telecommunications Corporation, its name was changed in 1975 by the *Teleglobe Canada Act*. The transfer of this business to a subsidiary and the sale of the latter to Memotec Data Inc. was announced by the government on February 11, 1987 and, with the proclamation of the *Teleglobe Canada Reorganization and Divestiture Act,* took place on April 3, 1987.

The corporation remains in existence, but inactive. Steps are being taken now so that the corporation may be dissolved.

CORPORATION DATA

HEAD OFFICE	c/o Canada Development Investment Corporation, Suite 4520 1, First Canadian Place Toronto, Ontario M5X 1A4
STATUS	— Schedule III, Part II — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable John McDermid, P.C., M.P., Minister of State (Privatization and Regulatory Affairs)
YEAR AND MEANS OF INCORPORATION	1949; by the *Canadian Overseas Telecommunications Act* (R.S.C. 1985, c. T-4).
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	Vacant
AUDITOR	The Auditor General of Canada

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1988	1987	1986	1985
At the end of the period				
Total Assets	2.9	84.2	502.4	524.9
Obligations to the private sector	nil	nil	57.1	66.5
Obligations to Canada	nil	nil	2.6	3.9
Equity of Canada	2.7	84.2	290.3	307.4
Cash from (to) Canada in the period, net				
— budgetary*	(85.0)	(440.5)**	(80.0)	(108.1)
— non-budgetary	nil	(2.6)	(1.3)	(1.3)

* Remitted to Canada as dividends.
** Includes $119.2 million income tax paid on profits on the sale of Teleglobe's assets and business.

TELEGLOBE CANADA

AUDITOR'S REPORT

TO THE MINISTER OF FINANCE

I have examined the balance sheet of Teleglobe Canada as at December 31, 1988 and the statements of operations and retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Teleglobe Canada Act and regulations, the by-laws of the Corporation and the Teleglobe Canada Reorganization and Divestiture Act.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
May 16, 1989

BALANCE SHEET AS AT DECEMBER 31, 1988

ASSETS	1988	1987	LIABILITIES	1988	1987
	$	$		$	$
Current			Current		
Cash and temporary investments, at cost	2,766,372	35,605,300	Revenue Canada	213,917	
Accrued interest	170,850	250,462	Other accounts payable	10,797	9,326
Refundable income tax		48,968,198		224,714	9,326
			EQUITY OF CANADA		
			Retained earnings	2,712,508	84,814,634
	2,937,222	84,823,960		2,937,222	84,823,960

Approved by the Board:

RONALD MONTCALM
Director

K. T. HEPBURN
Director

TELEGLOBE CANADA—*Concluded*

INCOME AND RETAINED EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1988

	1988	1987
	$	$ (272 days)
Revenues		
Interest	5,164,523	2,257,231
Gain on foreign exchange		36,006
	5,164,523	2,293,237
Expenses		
Interest on insufficient income tax instalments	96,000	
Administration fees	88,655	82,624
Financial charges	1,785	33,908
	186,440	116,532
Income before income tax and gain realized on privatization	4,978,083	2,176,705
Income tax	2,080,209	1,185,757
Income before gain realized on privatization	2,897,874	990,948
Gain realized on privatization, net of income tax of $29,084,381		214,042,071
Net income	2,897,874	215,033,019
Retained earnings at beginning	84,814,634	310,270,373
	87,712,508	525,303,392
Amounts remitted to the Government of Canada	85,000,000	440,488,758
Retained earnings at end	2,712,508	84,814,634

CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1988

	1988	1987
	$	$ (272 days)
Cash provided by (used for) operations		
Income before gain realized on privatization	2,897,874	990,948
Changes in non-cash working capital items	295,000	(9,201,765)
	3,192,874	(8,210,817)
Cash used for financing		
Reimbursement of long-term debt		(1,710,092)
Cash provided by investments		
Proceeds from disposal		504,836,273
Reimbursement of non-cash working capital items		(1,635,803)
Fees and other selling expenses		(6,754,545)
Income tax refunded (paid)	48,968,198	(119,155,392)
	48,968,198	377,290,533
Amounts remitted to the Government of Canada	(85,000,000)	(440,488,758)
Cash and temporary investments		
Decrease	(32,838,928)	(73,119,134)
Balance at beginning of year	35,605,300	108,724,434
Balance at end of year	2,766,372	35,605,300

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1988

1. Authority and activities

Teleglobe Canada is a Crown corporation created by the Teleglobe Canada Act and named in Part II of Schedule III to the Financial Administration Act. The Corporation is subject to federal income tax.

Since the sale of its undertaking to Memotec Data Inc. on April 3, 1987, following the adoption of the Teleglobe Canada Reorganization and Divestiture Act, the Corporation's activities consist of the management of its cash resources and the performance of other duties and functions leading to dissolution. The foregoing Act stipulates that on dates to be fixed by proclamation, the Corporation's name will be changed to TH (1987) and it will be wound up.

2. Contingencies

(a) Guarantees

As at December 31, 1988, the Corporation is guarantor of the following obligations of Teleglobe Canada Inc. towards one of its suppliers:

Maturities	Amounts in pounds sterling
May 16, 1989	2,616,222
November 16, 1989	2,545,409
May 16, 1990	2,452,946
November 16, 1990	2,379,426
May 16, 1991	2,289,670
November 16, 1991	2,213,444
May 16, 1992	2,127,746
November 16, 1992	2,047,462
May 16, 1993	1,963,117
	20,635,442

Based on the exchange rate at December 31, 1988, this amount represents 44,576,682 Canadian dollars.

(b) Guarantees and representations

The purchase and sale agreement entered into by Her Majesty the Queen in Right of Canada and Memotec Data Inc. provides for certain contingent adjustments to the purchase price under guarantees and representations given mutually by the parties.

SUMMARY PAGE

VANCOUVER PORT CORPORATION

MANDATE

Administration, management and control of the Vancouver Harbour and all the works and property within the harbour previously under the jurisdiction of the Canada Ports Corporation or, prior to February 24, 1983, the National Harbours Board.

BACKGROUND

The Vancouver Port Corporation was established on July 1, 1983, pursuant to the national ports policy to create local port corporations at the major ports and harbours previously under the centralized administration of the National Harbours Board and, since February 1983, the Canada Ports Corporation. Vancouver is the busiest port in Canada. In 1988, 71 million tonnes of cargo passed through the port. Coal and grain are the most important commodities; sulphur, potash and forestry products are also important.

CORPORATION DATA

HEAD OFFICE	1900 Granville Square 200 Granville Street Vancouver, British Columbia V6C 2P9
STATUS	— Schedule III, Part II — an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Benoît Bouchard, P.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1983; letters patent of incorporation issued by the Minister of Transport pursuant to subsection 25(1) of the *Canada Ports Corporation Act.*
CHIEF EXECUTIVE OFFICER	Francis J. MacNaughton
CHAIRMAN	Hector D. Perry
AUDITOR	Thorne Ernst & Whinney

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1988	**1987**	**1986**	**1985**
At the end of the period				
Total Assets	291.7	251.5	236.9	242.7
Obligations to the private sector	nil	nil	nil	nil
Obligations to Canada*	3.9	4.1	80.8	81.0
Equity of Canada	267.6	235.5	116.2	119.0
Cash from Canada in the period				
— budgetary**	nil	nil	0.5	nil
— non-budgetary	nil	nil	nil	nil

* In 1987, $76.5 million loan principal outstanding was forgiven by Canada: That amount, along with related interest forgiven, was added to the corporation's contributed capital.

** Takes no account of payments to Canada: in 1987, dividend $5.8 million and, in 1986, special contributions, $23.3 million.

VANCOUVER PORT CORPORATION

AUDITORS' REPORT

TO THE HONOURABLE BENOÎT BOUCHARD, P.C., M.P.
MINISTER OF TRANSPORT

We have examined the balance sheet of Vancouver Port Corporation as at December 31, 1988 and the statements of income and retained earnings and changes in cash resources for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1988 and the results of its operations and the changes in its cash resources for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations and the charter and by-laws of the Corporation.

Thorne Ernst & Whinney
Chartered Accountants

Vancouver, Canada
February 2, 1989

BALANCE SHEET AS AT DECEMBER 31, 1988
(in thousands of dollars)

ASSETS	1988	1987
Current assets		
Cash	849	527
Investments (Note 1)	87,218	54,518
Accounts receivable	8,644	6,870
Materials and supplies	363	306
	97,074	62,221
Long-term receivables (Note 2)	7,120	7,519
Property and equipment (Note 3)	187,492	181,751
	291,686	251,491

LIABILITIES AND EQUITY OF CANADA	1988	1987
Current liabilities		
Accounts payable and accruals	10,598	2,367
Grants in lieu of municipal taxes	6,316	5,979
Deferred revenues	2,326	2,550
	19,240	10,896
Accrued employee benefits	1,164	1,169
Loan from Canada (Note 4)	3,734	3,949
	24,138	16,014
EQUITY OF CANADA		
Contributed capital	88,273	88,273
Retained earnings	179,275	147,204
	267,548	235,477
	291,686	251,491

Commitment and contingency (Note 5)

Approved by the Board:

HECTOR D. PERRY
Chairman

COLIN B. WARNER
Director

VANCOUVER PORT CORPORATION—*Continued*

STATEMENT OF INCOME AND RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Operating revenue	51,780	46,657
Expenses		
Operating and administrative expenses	19,441	17,715
Grants in lieu of municipal taxes	4,423	5,133
Depreciation	6,442	6,352
	30,306	29,200
Income from operations	21,474	17,457
Investment income	6,952	4,074
Interest expense	(343)	(325)
	6,609	3,749
Income before unusual item	28,083	21,206
Unusual item		
Gain on sale of land	10,000	
Net income	38,083	21,206
Retained earnings at beginning of year	147,204	131,814
	185,287	153,020
Less: cash payment to Canada	6,012	5,816
Retained earnings at end of year	179,275	147,204

STATEMENT OF CHANGES IN CASH RESOURCES
YEAR ENDED DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Cash provided by (used for)		
Operations		
Net income	38,083	21,206
Items not involving cash		
Depreciation	6,442	6,352
Gain on sale of land	(10,000)	
Other	479	111
Changes in non-cash operating working capital	6,513	(2,441)
	41,517	25,228
Financing		
Loans from Canada currently payable	(215)	(199)
Cash payment to Canada	(6,012)	(5,816)
	(6,227)	(6,015)
Investments		
Additions to property and equipment	(12,746)	(4,007)
Proceeds on sale of land	10,000	
Other	478	426
	(2,268)	(3,581)
Increase in cash resources	33,022	15,632
Cash resources at beginning of year	55,045	39,413
Cash resources at end of year	88,067	55,045

Cash resources are defined to include cash and investments.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1988

General

The Vancouver Port Corporation was established effective July 1, 1983 as a local port corporation pursuant to the Canada Ports Corporation Act and is a parent Crown corporation named in Schedule III, Part II of the Financial Administration Act. The Corporation is exempt from income taxes.

The objectives of the Corporation are to manage and administer the harbour of Vancouver as an effective instrument in support of the national ports policy as set out in the Canada Ports Corporation Act.

Summary of Significant Accounting Policies

These financial statements have been prepared by management in accordance with generally accepted accounting principles considered to be appropriate in the circumstances and consistently applied. A summary of the significant accounting policies of the Corporation is as follows:

Property and equipment

Property and equipment are recorded at cost. Depreciation is calculated on the straight-line basis, commencing with the year the asset becomes operational, at rates based on the estimated useful lives of the assets as follows:

Dredging	15 to 40 years
Berthing structures, buildings, roads and surfaces	10 to 40 years
Utilities	10 to 33 years
Machinery and equipment	1 to 20 years
Office furniture and equipment	5 years

Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employees and the Corporation. Although the Plan is a defined benefit plan, the contributions represent the total pension liability of the Corporation and are recognized in the accounts on a current basis.

Insurance

Except for property insured by tenants and contractors, the Corporation assumes all risks against fire and property damage, as well as for workers' compensation claims. Any costs arising from these risks are recorded in the accounts in the period incurred.

Grants in lieu of municipal taxes

Grants in lieu of municipal taxes are estimated based on municipal assessments adjusted in accordance with the Municipal Grants Act. After the amounts have been audited by the Municipal Grants Division of Public Works Canada, any adjustments upon finalization are reflected in the accounts in the period of settlement.

Employee benefits

The Corporation accrues in its accounts the estimated liabilities for severance pay and annual leave. These benefits are provided under collective agreements and corporate policy.

1. Investments

Current investments are in Government of Canada treasury bills and at December 31, 1988 and 1987 the market value of the treasury bills approximated carrying value.

VANCOUVER PORT CORPORATION—*Concluded*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1988—*Concluded*

2. Long-term receivables

	1988	1987
	(in thousands of dollars)	
Non-interest-bearing agreement with B.C. Rail, due as and when rail trackage is constructed on Roberts Bank causeway or April 1, 1994, whichever is earlier	3,947	3,947
Long-term agreement for sale of No. 1 Elevator, bearing interest at 6 5/8% per annum, payable in blended annual instalments of $462,916, maturing December 31, 1996	2,805	3,065
Less: current portion	(277)	(260)
	2,528	2,805
Long-term agreement for sale of No. 3 Elevator, bearing interest at 5 3/4% per annum, payable in annual instalments of $117,720 plus interest, maturing August 1, 1994	706	824
Less: current portion	(117)	(118)
	589	706
Other	56	61
	7,120	7,519

3. Property and equipment

	1988			1987
	Cost	Accumulated depreciation	Net	Net
	(in thousands of dollars)			
Land	76,403		76,403	76,403
Dredging	366	190	176	188
Berthing structures	51,490	24,271	27,219	28,309
Buildings	43,963	10,490	33,473	33,892
Utilities	13,740	5,830	7,910	8,036
Roads and surfaces	30,639	17,043	13,596	15,184
Machinery and equipment	26,467	10,483	15,984	17,088
Office furniture and equipment	2,821	1,448	1,373	775
Projects under construction	11,358		11,358	1,876
	257,247	69,755	187,492	181,751

4. Loan from Canada

	1988	1987
	(in thousands of dollars)	
Interest-bearing loans at 7.5% repayable in blended annual instalments, maturing December 31, 2000	3,949	4,148
Less: current portion	(215)	(199)
	3,734	3,949

Principal repayment requirements over the next five years are as follows:

	$
1989	215,000
1990	230,000
1991	248,000
1992	266,000
1993	286,000
	1,245,000

5. Commitment and contingency

The Corporation has long-term lease obligations of varying durations to 1991 for office accommodation aggregating $1,655,000 with annual payments in each of the three years of:

	$
1989	662,000
1990	662,000
1991	331,000
	1,655,000

At December 31, 1988 the Corporation had claims from municipalities for grants in lieu of taxes of approximately $6.6 million greater than the amount accrued in the financial statements.

6. Related party transactions

Through common ownership, the Corporation is related to all Government of Canada created departments, agencies and Crown corporations.

In addition to the loan from Canada disclosed in Note 4, the Corporation paid $1,779,000 (1987, $1,594,000) to Canada Ports Corporation as its share of that corporation's operating expenses and paid $6,012,000 to Canada as a cash payment in the current year. The Corporation has been requested to consider making a cash payment based on a percentage of its 1988 net income, payable to Canada by March 31, 1989.

SUMMARY PAGE

VIA RAIL CANADA INC.

MANDATE

To manage and provide safe, efficient, effective and economic rail passenger service in Canada to meet the needs of the travelling public.

BACKGROUND

In accordance with contracts with the Minister of Transport, VIA Rail operates inter-city, transcontinental, regional and remote passenger train services over CN and CP railway tracks. In the April 1989 Budget the government announced reductions in planned funding for the corporation.

CORPORATION DATA

HEAD OFFICE	2 Place Ville-Marie Montreal, Quebec H3B 2G6
STATUS	— Schedule III, Part I — not an agent of Her Majesty
APPROPRIATE MINISTER	The Honourable Benoît Bouchard, P.C., M.P.
DEPARTMENT	Transport
YEAR AND MEANS OF INCORPORATION	1977; under the *Canada Business Corporations Act*. The Minister of Transport acquired all common shares on behalf of the Crown on April 1, 1978.
CHIEF EXECUTIVE OFFICER	Ronald Lawless
CHAIRMAN	Lawrence Hanigan
AUDITOR	Raymond, Chabot, Martin, Paré & Associates

FINANCIAL SUMMARY ($ million) The financial year is the calendar year.

	1988	1987	1986 (restated)	1985
At the end of the year				
Total Assets	1,070	954	964	899
Obligations to the private sector	nil	negl.	4	nil
Obligations to Canada	nil	nil	nil	nil
Equity of Canada	839	769	743	712
Cash from Canada in the year				
— budgetary	637	536	506	631
— non-budgetary	nil	nil	nil	nil

VIA RAIL CANADA INC.

RESPONSIBILITY FOR PREPARATION AND INTEGRITY OF FINANCIAL STATEMENTS

The management of VIA is responsible for the preparation and integrity of the financial statements contained in the Annual Report.These statements have been prepared in accordance with generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgement. Management considers that the statements present fairly the financial position of VIA and the results of its operations.

To fulfill its responsibility, VIA maintains systems of internal accounting controls, policies and procedures to ensure the reliability of financial information and to safeguard assets. The internal control systems and financial records are subject to reviews by internal auditors and by Raymond, Chabot, Martin, Paré during the examination of the financial statements.

The Audit Committee of the Board of Directors meets periodically with the internal and external auditors, and with management to approve the scope of audit work and to assess reports on audit work performed. The financial statements have been reviewed by the Audit Committee and approved by the Board of Directors upon their recommendation.

AUDITORS' REPORT

TO THE HONOURABLE
THE MINISTER OF TRANSPORT

We have examined the balance sheet of VIA Rail Canada Inc. as at December 31, 1988 and the statements of income and deficit and changes in financial position for the year then ended.Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, we have examined the transactions that came to our notice in the course of the above-mentioned examination of the financial statements of VIA Rail Canada Inc. for the year ended December 31, 1988, to determine whether they were in accordance with Part X of the Financial Administration Act, the regulations, the charter and by-laws of the Corporation and any directives given to the Corporation pursuant to the Act. Our examination of these transactions was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. In our opinion, these transactions were, in all significant respects, in compliance with the authorities specified.

Raymond, Chabot, Martin, Paré
Chartered Accountants

Montréal, Canada
January 27, 1989

BALANCE SHEET AS AT DECEMBER 31, 1988
(in thousands of dollars)

	1988	1987
Current assets		
Cash and term deposits	4,103	
Accounts receivable	10,154	9,408
Provincial income taxes recoverable	142	
Receivable from the Government of Canada	214,816	180,422
Materials and supplies	33,873	23,939
	263,088	213,769
Long-term assets		
Investment (Note 2)	2,001	2,001
Properties (Note 3)	804,639	733,613
	806,640	735,614
	1,069,728	949,383

	1988	1987
Current liabilities		
Bank advances		54
Accounts payable and accrued liabilities	211,965	158,063
Provincial income taxes payable		2,066
Deferred revenue	4,011	4,300
	215,976	164,483
Long-term liabilities		
Deferred investment tax credits	14,935	16,248
SHAREHOLDER'S EQUITY		
Share capital (Note 4)	9,300	9,300
Contributed surplus	836,107	764,158
Deficit	(6,590)	(4,806)
	838,817	768,652
	1,069,728	949,383

See accompanying notes to financial statements.

Signed on behalf of the Board:

GARY T. BRAZZELL
Director and Chairman of the Audit Committee

LAWRENCE HANIGAN
Director and Chairman of the Board

VIA RAIL CANADA INC.—*Continued*

STATEMENT OF INCOME AND DEFICIT
YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1988	1987
Revenue		
Passenger	220,370	195,248
Contract (Note 1(a))	509,200	452,300
Asset replacement funding (Note 1(a))	55,450	64,767
Other	3,138	2,354
	788,158	714,669
Expenses		
Operations and maintenance	456,246	399,465
Customer and support services	220,492	184,720
General and administrative	59,037	58,228
Depreciation and amortization	54,291	53,713
	790,066	696,126
Income (loss) before income taxes	(1,908)	18,543
Income taxes (recovery) (Note 5)	(124)	12,522
Net income (loss)	(1,784)	6,021
Deficit		
Balance at beginning of year	(4,806)	(10,827)
Balance at end of year	(6,590)	(4,806)

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31
(in thousands of dollars)

	1988	1987
Cash provided by (used in) operating activities		
Net income (loss)	(1,784)	6,021
Non-cash charges to income		
Depreciation and amortization	55,604	57,502
Losses (gains) on write-off and retirement	(154)	7,265
Amortization of investment tax credits	(1,313)	(3,789)
	52,353	66,999
Changes in working capital items		
Accounts receivable	(746)	(973)
Provincial income taxes recoverable	(142)	
Receivable from the Government of Canada	27,106	43,455
Materials and supplies	(9,934)	(6,021)
Accounts payable and accrued liabilities	12,475	(3,354)
Provincial income taxes payable	(2,066)	978
Deferred revenue	(289)	(2,014)
	26,404	32,071
Cash flow from operations	78,757	99,070
Cash provided by (used in) financing activities		
Capital funding from the Government of Canada	71,949	19,371
Receivable from the Government of Canada	(61,500)	(10,410)
Deferred investment tax credits		12,155
	10,449	21,116
Cash provided by (used in) investment activities		
Properties	(126,476)	(81,322)
Changes in working capital items		
Accounts payable and accrued liabilities	41,427	(35,132)
	(85,049)	(116,454)
Increase in cash during the year	4,157	3,732
Cash and term deposits (bank advances)		
Balance at beginning of year	(54)	(3,786)
Balance at end of year	4,103	(54)

See accompanying notes to financial statements.

VIA RAIL CANADA INC.—*Continued*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1988

1. Accounting policies

These financial statements have been prepared by management in accordance with generally accepted accounting principles. The significant accounting policies are summarized as follows:

(a) Government funding

The Corporation receives funds from the Government of Canada in the form of contract revenues and as financing for its capital expenditures.

Contract revenues pertain to services, activities and other undertakings provided by the Corporation for the management and operation of railway passenger services in Canada.

The funding for capital expenditures is provided under the Financial Administration Act in accordance with terms and conditions approved by Treasury Board.

These funds are accounted for as follows:

(i) Contract revenues are recorded in the Statement of Income on a realized and estimated basis with any changes in estimates being accounted for in the year of change.

(ii) The portion of funding for capital expenditures which relates to the replacement of capital properties is included in the Statement of Income and the balance of these funds is recorded as contributed surplus.

(b) Charges under railway operating agreements

The Corporation has operating agreements with Canadian National Railway Company and Canadian Pacific Limited for the use of tracks, facilities, train personnel, rolling stock servicing and refurbishing.

Charges under the operating agreements are recorded on an incurred and estimated basis. The charges are subject to adjustment by the National Transportation Agency following a review of the actual costs incurred each year and determination of proposed changes in railway costing methodology by railway companies. Adjustments arising from these reviews, which are pending for the years 1985 to 1988, are to be included in the Statement of Income in the year in which the resolution occurs.

Costs incurred under the railway operating agreements amounted to $105,019,000 (1987—$179,212,000).

(c) Materials and supplies

Materials in stores and on-board inventories are valued at weighted average cost, fuel at latest invoice price and obsolete and scrap materials at estimated utility or sales value.

(d) Properties

Properties, including those acquired under capital leases, are recorded at cost. The costs of refurbishing and rebuilding of rolling stock and costs associated with other property upgrading are capitalized if they are incurred to improve the service values or extend the useful lives of the assets concerned, otherwise the costs are expensed as incurred.

(e) Depreciation and amortization

Depreciation and amortization is calculated on a straight-line basis at rates sufficient to write off the cost of properties over their estimated useful lives. The estimated useful lives for significant classes of assets are as follows:

Rolling stock	12 to 30 years
Stations and facilities	20 years
Maintenance buildings	25 years
Machinery and equipment	5 to 15 years
Office furniture and equipment	3 to 20 years
Leasehold and infrastructure improvements	10 to 38 years
Other capital properties	3 to 10 years

No depreciation or amortization is provided for projects in progress.

(f) Leases

Assets recorded under capital leases are amortized on a straight-line basis over the terms of the leases.

All other leases are accounted for as operating leases and the rental costs are expensed as incurred.

(g) Deferred investment tax credits

In accordance with the cost reduction approach, investment tax credits are deferred and amortized to income over the estimated useful lives of the related assets.

(h) Pensions

The cost of providing pension benefits is determined by actuarial valuations, which allocate to each year of service the applicable portion of total estimated benefits, based on projections of employees' compensation levels to the time of their retirement.

Pension expense includes both the cost of benefits attributable to services rendered during the current year and the amortization of unfunded liabilities pertaining to accumulated past service benefits. This amortization is calculated over expected average remaining service lives of the Corporation's active employee groups.

2. Investment

The Corporation owns common shares in Railroad Association Insurance, Ltd. (R.A.I.L.) representing a 4% interest therein. The investment is accounted for on the cost basis.

3. Properties

	1988	1987
	(in thousands of dollars)	
Land	2,804	2,805
Rolling stock	540,681	542,332
Stations and facilities	12,635	12,583
Maintenance buildings	165,463	164,512
Machinery and equipment	13,476	12,185
Office furniture and equipment	23,557	23,092
Leasehold and infrastructure improvements	138,694	138,263
Other capital properties	53,096	50,223
	950,406	945,995
Accumulated depreciation and amortization	(305,099)	(253,424)
	645,307	692,571
Projects in progress	159,332	41,042
	804,639	733,613

VIA RAIL CANADA INC.—*Concluded*

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1988—*Concluded*

At December 31, 1988 the gross value of assets under capital leases included above was $7,239,000 (1987—$7,239,000) and related accumulated amortization thereon amounted to $2,119,000 (1987—$1,194,000).

4. Share capital

	1988	1987
	(in thousands of dollars)	
Authorized		
An unlimited number of common shares of no par value		
Issued and fully paid		
93,000 common shares	9,300	9,300

5. Income taxes

The effective income tax rate in the Statement of Income varies from the Corporation's combined Federal and Provincial income tax rate mainly as a result of not recognizing any potential future benefit on a Federal income tax loss of $1,943,000 which arises in the current year. No benefits have been recognized in respect of this loss and on cumulative Federal timing differences of approximately $33 million, largely comprised of differences between available capital cost allowances and depreciation and amortization expense, because of uncertainty as to their realization in future accounting periods. The income tax loss is due to expire in 1995.

6. Lease obligations and commitments

(a) The future minimum rental payments relating to operating leases are as follows:

	(in thousands of dollars)
1989	14,988
1990	14,325
1991	14,498
1992	14,390
1993	8,952
Subsequent years	248,668
	315,821

A significant portion of the leases are for real estate or rental of computer equipment and services.

(b) No obligations under capital leases exist, as lease payments applicable to the initial term have been paid in lump sums at the inception of the leases.

(c) As at December 31, 1988 the Corporation has outstanding commitments mainly relating to the acquisition and upgrading of property and equipment amounting to approximately $146,556,000.

7. Pension plans

(a) The Corporation has retirement benefit plans covering all of its permanent employees, including those transferred from Canadian National Railway Company (Note 8). Under the plans, employees are entitled to benefits at retirement age, based on compensation and length of service.

The latest actuarial valuations of the pension plans were carried out as at December 31, 1987. Based on these valuations and actuarial projections made for 1988, the accumulated plan benefits as at December 31, 1988, excluding any such benefits accumulated up to the dates of transfer of the foregoing employees, were $366,000,000. The net assets available to provide for these benefits at market related values as at that date amounted to $378,000,000.

(b) It was agreed that the employees transferred from Canadian National Railway Company would be fully protected to the extent of their benefits accrued under the pension plan of their former employer. Negotiations are pending concerning the amount of funds to be transferred to cover accumulated benefits up to the dates of transfer.

8. Related party transactions

VIA Rail Canada Inc. is a Crown Corporation with all of its issued shares owned by the Government of Canada.

In the normal course of business, the Corporation contracts with other Crown Corporations for services which in 1988 amounted to $127,091,000 (1987—$157,967,000). Accounts payable and accrued liabilities as at December 31, 1988 included $10,345,000 (1987—$11,146,000) pertaining to these services.

During the year the Corporation acquired the services of a further 97 (1987—1,000) former employees of Canadian National Railway Company, pursuant to the progressive transfer of activities previously conducted under the operating agreement referred to in Note 1(b).

9. Comparative figures

Certain comparative figures have been reclassified so as to conform with the presentation adopted in 1988.

PART II

OTHER CORPORATE INTERESTS OF CANADA INCLUDING SUBSIDIARIES OF CROWN CORPORATIONS

1. INTRODUCTION TO PART II

This Part responds to the provision in the *Financial Administration Act*, paragraph 151(3)(a) that the Report of the President "shall include a list naming, as of a specified date, all Crown corporations and all corporations of which any shares are held by, on behalf of or in trust for the Crown or any Crown corporation."

The information represents the status of Crown corporations and other corporate interests of Canada as at June 30, 1989, unless otherwise noted.

The individual lists are:

Parent Crown Corporations and their subsidiaries and associates. These are grouped as:

— **subsidiaries held at 100%**, if wholly-owned,

— **subsidiaries held at 50-99%**, if 50% or more of the equity is held by a Crown corporation; or,

— **Associates held at less than 50%** if less than 50% is held. (Generally, subsidiaries of subsidiaries are listed only to a second ownership level below the 100% owned category);

Joint Enterprises are corporate entities in which Canada, through a Minister, owns shares, the rest being owned by another level of government, e.g., provincial or municipal;

Mixed Enterprises are corporate entities in which Canada, through a Minister, owns shares, the rest being owned by private sector parties;

Other Entities are corporate entities in which Canada holds no shares but, directly or through a Crown corporation, has a right pursuant to statute, articles of incorporation, letters patent or by-law, to appoint or nominate one or more members of the board of directors or similar governing body.

International Organizations are corporate entities created pursuant to international agreements by which Canada has a right to appoint or elect members to a governing body.

A summary of the number of entities in each of the lists is presented on the next page.

The reader should note that the descriptions of corporate mandates appearing in this Part are intended to convey the essence of those mandates. They are not legal descriptions. Similarly, the description of the government's objective in making investments in these corporations is meant only as a summarization. For further information, the reader is referred to the special Acts, articles of incorporation, or annual reports of the corporations. The federal ownership percentage data displayed are based on the number of voting shares.

2. STATISTICAL SUMMARY OF CORPORATE INTERESTS

As at June 30, 1989

Crown Corporations

• Parent Crown corporations including eight corporations which are exempted from Part X of the FAA	53 *
• Wholly-owned subsidiaries	112
TOTAL	165

Crown Corporations' Investments (direct and indirect)

• Subsidiaries held at 50% or more but less than 100%	28
• Associates held at less than 50%	104
TOTAL	132

Joint and Mixed Enterprises

TOTAL	17 **

Other Entities

• Entities without share capital	43

International Organizations

• Entities created pursuant to international agreement	13

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* Includes:

— in process of dissolution

Canadian National (West Indies) Steamships Ltd.

Teleglobe Canada—assets sold April 3, 1987

** Includes:

— 9 corporations in which the Superintendent of Bankruptcy has received shares in lieu of a cash levy.

3. THE LISTINGS; CORPORATE INTERESTS OF CANADA AS AT JUNE 30, 1989

3.1 PARENT CROWN CORPORATIONS AND THEIR WHOLLY-OWNED SUBSIDIARIES, OTHER SUBSIDIARIES AND ASSOCIATES

1. Atlantic Pilotage Authority (III-I)
2. Atomic Energy of Canada Limited (III-I)
3. Bank of Canada (Exempted)
4. Canada Council (Exempted)
5. Canada Deposit Insurance Corporation (III-I)
6. Canada Development Investment Corporation (III-II)

    Subsidiaries held at 100%
    - Canada Eldor Inc.
        - CAMECO - A Canadian Mining & Energy Corporation (38.5%)
    - Cartierville Financial Corporation
    - Nordion International Inc.
    - Theratronics International Limited

    Subsidiaries held at 50-99%
    - Ginn and Company (Canada) (51%)
    - GLC Publishers Ltd. (51%)

    Associates held at less than 50%
    - Varity Corporation (2.7%)

7. Canada Harbour Place Corporation (III-I)
8. Canada Lands Company Limited (III-I)

    Subsidiaries held at 100%
    - Canada Lands Company (Mirabel) Limited
    - Canada Lands Company (Le Vieux-Port de Montréal) Limited
    - Canada Lands Company (Vieux-Port de Québec) Inc.

9. Canada Mortgage and Housing Corporation (III-I)
10. Canada Museums Construction Corporation Inc. (III-I)
11. Canada Ports Corporation (III-II)

    Subsidiary held at 50-99%
    - Ridley Terminals Inc. (90%)

12. Canada Post Corporation (III-II)

    Associates held at less than 50%
    - International Post Corporation S.A. (9.9%)
    - EMS International Ltd. (7.3%)
    - Cooperative Vereniging International Post Corporation U.A. (7.3%)

13. Canadian Broadcasting Corporation (Exempted)

    Associates held at less than 50%
    - Cable North Microwave Limited (1 share)
    - Master FM Limited (20%)

14. Canadian Commercial Corporation (III-I)

15. Canadian Dairy Commission (III-I)

16. Canadian Film Development Corporation (Exempted)

17. Canadian Institute for International Peace and Security (Exempted)

18. Canadian Livestock Feed Board (III-I)

19. Canadian National Railway Company (III-II)

Subsidiaries held at 100%
- Autoport Limited
- The Canada and Gulf Terminal Railway Company
- Canadian National Express Company
- The Canadian National Railways Securities Trust
- Canadian National Steamship Company, Limited
- Canadian National Telegraph Company
  - The Great North Western Telegraph Company of Canada (94.54%)
- Canadian National Transfer Company Limited
- Canadian National Transportation, Limited
  - Chapman Transport Limited
  - Empire Freightways Limited
  - Royal Transportation Limited
- Canat Limited
- CN (France) S.A.
- CNM Inc.
  - Halifax Industries (Holdings) Limited (33.3%)
  - Lakespan Marine Inc. (50%)
  - Seabase Limited (15%)
- CN Tower Limited
- CN Transactions Inc.
  - Canac International Inc.
    - Canac International Ltd.
  - Canaprev Inc. (50%)
  - Canaven Limited
  - CN Exploration Inc.
  - Portage & Main Development Ltd. (50%)
  - The Toronto Terminals Railway Company (50%)
- EID Electronic Identification Systems Ltd.
- Grand Trunk Corporation
  - Central Vermont Railway, Inc.
  - Domestic Four Leasing Corporation
  - Domestic Two Leasing Corporation
    - Relco Financial Corp.
  - Duluth, Winnipeg and Pacific Railway Company
  - Grand Trunk Land Development Corporation
  - Grand Trunk Radio Communications, Inc.
  - Grand Trunk Western Railroad Company
    - The Belt Railway Company of Chicago (8.33%)
    - Chicago and Western Indiana Railroad Company (20%)
    - Domestic Three Leasing Corporation
    - Trailer Train Company (2.7%)
- The Minnesota and Manitoba Railroad Company
- The Minnesota and Ontario Bridge Company
- Mount Royal Tunnel and Terminal Company, Limited

Subsidiaries held at 50-99%
- The Canada Southern Railway Company (50%)
- The Canadian Northern Quebec Railway Company (59.7%)

Detroit River Tunnel Company (50%)
The Northern Consolidated Holding Company Limited (71.9%)
The Public Markets, Limited (50%)
The Quebec and Lake St. John Railway Company (89.1%)
Shawinigan Terminal Railway Company (50%)

Associates held at less than 50%
Compagnie de gestion de Matane Inc. (49%)
Dome Consortium Investments Inc. (10.52%)
Eurocanadian Shipholdings Limited (18%)
Fort Point Holdings Ltd. (25%)
Halterm Limited (33.33%)
Railroad Association Insurance, Ltd. (7.4%)
Telesat Canada (3.75%)

20. Canadian National (West Indies) Steamships, Ltd. (III-I)*

21. Canadian Patents and Development Limited (III-I)

22. Canadian Saltfish Corporation (III-I)

23. Canadian Wheat Board (Exempted)

24. Cape Breton Development Corporation (III-I)

Subsidiaries held at 100%
Cape Breton Carbofuels Limited (Inactive)

25. Defence Construction (1951) Limited (III-I)

26. Enterprise Cape Breton Corporation (III-I)

Subsidiaries held at 100%
Cape Breton Marine Farming Limited (Inactive)
Darr (Cape Breton) Limited
Dundee Estates Limited

Subsidiaries held at 50-99%
Whale Cove Summer Village Limited (62.5%)

Associates held at less than 50%
Haak Conveyor & Manufacturing Limited (42%)
Newco Mining Limited (10%) (Inactive)
Nova Scotia Clam Limited
4 M Panga Hotel Co. Limited (45%)

27. Export Development Corporation (III-I)

28. Farm Credit Corporation (III-I)

29. Federal Business Development Bank (III-I)

30. Freshwater Fish Marketing Corporation (III-I)

31. Great Lakes Pilotage Authority, Ltd. (III-I)

32. Halifax Port Corporation (III-II)

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* In process of dissolution

33. Harbourfront Corporation (III-I)

Subsidiaries held at 100%

Peter Street Basin Properties Inc.
630370 Ontario Ltd.

Subsidiaries held at 50-99%
Harbourpoint Developments (Harbourfront) Limited
International Readings at Harbourfront
Art Gallery at Harbourfront (membership interest)
School-By-the-Water (membership interest)

34. International Centre for Ocean Development (III-I)

35. International Development Research Centre (Exempted)

36. Laurentian Pilotage Authority (III-I)

37. Marine Atlantic Inc. (III-I)

Subsidiaries held at 100%
Coastal Transport Ltd.
Newfoundland Dockyard Company

38. Mingan Associates Ltd. (III-I) (Inactive)

39. Montreal Port Corporation (III-II)

40. National Arts Centre Corporation (Exempted)

41. National Capital Commission (III-I)

42. Pacific Pilotage Authority (III-I)

43. Petro-Canada (III-II)

Subsidiaries held at 100%
Canertech Inc.*
Petro-Canada Consulting Corporation
Petro-Canada Enterprises Inc.*
Petro-Canada Espanola, S.A.
Petro-Canada International Assistance Corporation (acting parent Crown corporation)
Petro-Canada Inc.
Amauligak Exploration Inc.
Arctic Pilot Project Inc.
Asher American, Inc.
Bent Horn Development Inc.
Blakeney and Son (1979) Ltd.
BP Marketing Canada Limited
Canadian Petroleum Studies Inc.
Chatelaine Restaurants Limited
Dépanneurs Le Frigo Ltée.
Ducharme et Carbone (1981) Inc.
Fifth Pacific Stations Ltd.
GMI Co. (Bahamas) Limited
Independent Fuels & Lumber Ltd.*
Morrow Fuel Oil Sales Ltd.
Northwest Terminals Ltd.
Opal Oils Limited
Commodore Oil Limited

* In process of dissolution

First Pacific Stations Ltd.
Second Pacific Stations Ltd.
Third Pacific Stations Ltd.
Fourth Pacific Stations Ltd.
Pacific Petroleums Ltd.*
Pacific Pipelines, Inc.
Petro-Canada (Argentina) Inc.
Petro-Canada Hydrocarbons Inc.
Petro-Canada (Indonesia) Inc.
Petro-Canada (Malaysia) Inc.
Petro-Canada (Barito) Inc.
Petro-Canada (North Africa) Inc.
Petro-Canada Chemicals Inc.
Petro-Canada Oil & Gas Inc.
Petro-Canada Petroleum Marketing Inc.
Petro-Canada (Pakistan) Inc.
Petro-Canada (South America) Inc.
Petro-Canada (Thailand) Inc.
Petro-Canada Petroleum Inc.*
Petro-Canada Youth Inc.
St. Laurent Petroleum Inc.
Petro-Canada (U.K.) Limited
Petro-Canada (Vietnam) Inc.
Petroleum Transmission Company
Prairie Leaseholds Ltd.
Rocair Limited
Servico Limited
Wayfare Restaurants Limited
XYCHEM Inc.
103912 Canada Inc.
106616 Canada Inc.
106621 Canada Inc.
146923 Canada Ltd.
146924 Canada Ltd.
158226 Canada Inc.
159542 Canada Inc.
159543 Canada Inc.
1283-9304 Quebec Inc.

Subsidiaries held at 50-99%
Canstar Oil Sands Ltd. (50%)
Les Huiles Du Royaume Inc. (50%)
Marchand Petroleum (Canada) Inc. (50%)
Panarctic Oils Ltd. (52.73%)
Petro-Canada Centre Inc. (50%)
Petro-Canada Centre Finance Inc.
Sedpex Inc. (50%)
288564 Alberta Ltd. (50%)

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* In process of dissolution

- Associates held at less than 50%
    - Alberta Products Pipeline Ltd. (35%)
    - Downhole Systems Technology Canada Inc. (18.3%)
    - Fundy Energy Inc. (49%)
    - Harvey's Oil Limited (49.9%)
    - Internationale de Services Industriels et Scientifique, S.A. (27%)
    - Kenmac Energy Inc. (49%)
    - Les Huiles Desroches Inc. (45%)
    - Les Huiles La montagne Inc. (49%)
    - Les Huiles Town & Country Inc. (49%)
    - Les Pétroles Sherbrooke Inc. (49%)
    - Les Pétroles Vosco (Canada) Ltée. (49%)
    - MacGillivray Fuels Limited (49%)
    - Marc Dufresne (1978) Inc. (49.99%)
    - Montreal Pipeline Limited (20%)
    - Northward Development Ltd. (17%)
    - Pacific Northern Gas Ltd. (18%)
    - Peace Pipeline Ltd. (10.89%)
    - Petrogas Processing Ltd. (11.35%)
    - Pétrole Sud-Ouest Inc. (49.9%)
    - Pétroles de la Maurice (Canada) Inc. (49.99%)
    - Pétroles M. Miron Inc. (49.9%)
    - Petrole Chaleurs (1981) Inc. (49%)
    - Pétroles St. Jean Sur Richelieu Inc. (49%)
    - Redwater Water Disposal Co. Ltd. (21.36%)
    - Roma Fuels Limited (49%)
    - Sulconam Inc. (7.6%)
    - Superline Fuels Ltd. (49.99%)
    - Sydco Fuels Inc. (49.99%)
    - Syncrude Canada Ltd. (17%)
    - Thermo Page Inc. (49%)
    - Touchcom Inc. (45%)
    - TransNorthern Pipeline Ltd. (33.3%)
    - Westcoast Energy Inc. (36.5%)
        - Westcoast Transmission Company (Alberta) Ltd.
        - Westcoast Transmission Holdings Ltd.
        - Vancal Properties Ltd.
        - W.T. Investments Inc.
        - Westcoast Diversified Industries Ltd.
        - Westcoast Transmission Company, Inc.
        - Westcoast Energy Marketing Ltd.
        - Westcoast Petroleum Ltd.
            - Westcoast Resources Inc.
            - Dover Petroleum Inc.
            - Texas Pacific Oil Canada Ltd.
            - Canadian Roxy Petroleum Ltd. (78%)
        - Island & Coastal Natural Gas Co. Ltd.
        - Inter B.C. Gas Transmission Ltd.
        - Saratoga Processing Company Limited (25%)
        - Pacific Northern Gas Ltd. (44%)
            - PNG Marketing Ltd.
        - Foothills Pipe Lines Ltd. (30%)
        - Foothills Pipe Lines (North B.C.) Ltd. (49%)
        - Foothills Pipe Lines (Yukon) Ltd. (50%)
            - Foothills Pipe Lines (North B.C.) Ltd (51%)

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* In process of dissolution

Foothills Pipe Lines (South Yukon) Ltd.
Foothills Pipe Lines (North Yukon) Ltd.
Foothills Pipe Lines (South B.C.) Ltd. (51%)
Foothills Pipe Lines (Alta.) Ltd. (51%)
Foothills Pipe Lines (Sask.) Ltd. (51%)
Foothills Engineering Ltd.
128963 Canada Inc. (49%)

Subsidiaries held at less than 5% (other interests)
Carnduff Gas Limited
Cheyenne Petroleum Corp. (NPL)
Cynthia Gas Gathering Company Limited
Dreco Energy Services Ltd.
East Coast Spill Response Inc.
House of Brougham Limited
Kanata Hotels International Inc.
Manhattan Continental Dev. Corp.
Northwood Pulp and Timber Limited
Oil Spill Response Limited
Pacific Energy Resources Ltd.
Polar Gas Engineering Services Ltd.
Rimbey Pipe Line Co. Ltd.
Sultran Ltd.
Toronto Credits Limited
Trans Canada Resources Ltd.
Wardean Drilling Co. Limited
204383 Enterprises Inc.
346877 Ontario Limited

44. Port of Quebec Corporation (III-II)

45. Prince Rupert Port Corporation (III-II)

46. Royal Canadian Mint (III-II)

47. Saint John Port Corporation (III-II)

48. St. John's Port Corporation (III-II)

49. Teleglobe Canada (III-II)

50. The St. Lawrence Seaway Authority (III-I)

Subsidiaries held at 100%
The Jacques Cartier and Champlain Bridges Incorporated
The Seaway International Bridge Corporation, Ltd.

51. Standards Council of Canada (III-I)

52. Vancouver Port Corporation (III-II)

53. VIA Rail Canada Inc. (III-I)

Associates held at less than 50%
Railroad Association Insurance, Ltd. (4%)

Notes:

1. For corporations scheduled in the *Financial Administration Act* (FAA), the relevant schedule is shown in parentheses immediately following the corporation's name.

2. Under the FAA, a subsidiary is a Crown corporation if it is wholly-owned directly or indirectly by one or more parent Crown corporations.

3.2 JOINT AND MIXED ENTERPRISES

These are enterprises with share capital which is owned partly by Canada, the rest being owned by other governments and/or other organizations to further common objectives. (Note: Subsidiaries and associates are not listed.)

1. Air Canada
2. Canarctic Shipping Company Limited
3. Cooperative Energy Corporation
4. Lower Churchill Development Corporation Limited
5. National Sea Products Ltd.
6. North Portage Development Corporation
7. NPM Nuclear Project Managers Canada Inc.
8. Telesat Canada

Under terms of the *Bankruptcy Act*, the Superintendent of Bankruptcy has received shares in the following corporations:

9. Blake Resources
10. Braeswood Explorations Limited
11. Equity Capital Investments Ltd.
12. Havelock Energy & Resources Inc.
13. House of Brougham Ltd.
14. International Hydrodynamics Co. Ltd.
15. Mission River Petroleum Ltd.
16. North Slope Refiners Inc.
17. Totran Services Ltd.

3.3 OTHER ENTITIES

These are corporate entities without share capital for which the Government of Canada has a right to appoint members to the boards of directors or similar governing bodies. The Harbour Commissions are grouped at the foot of this list.

1. Agricultural Products Board
2. Asia-Pacific Foundation of Canada
3. The Army Benevolent Fund
4. Association for the Export of Canadian Books
5. The Blue Water Bridge Authority
6. Board of Trustees of the Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children
7. Buffalo and Fort Erie Public Bridge Authority
8. Calgary Olympic Development Association
9. Canadian Centre on Substance Abuse
10. Canadian Fitness and Lifestyle Research Institute Inc.
11. Canadian Livestock Records Corporation
12. Canadian Sport and Fitness Administration Centre Inc.
13. Canada Grains Council
14. Canadian International Grains Institute
15. Coaching Association of Canada
16. Forest Engineering Research Institute of Canada
17. FORINTEK Canada Corp.
18. Hockey Canada Inc.
19. International Centre for Human Rights and Democratic Development
20. International Fisheries Commission Pension Society
21. Last Post Fund
22. Maritime Forestry Complex Corp.
23. Medical Council of Canada
24. The Nature Trust of British Columbia
25. Northern Native Fishing Corporation
26. NWT Co-operative Business Development Fund
27. PARTICIPaction
28. POS Pilot Plant Corporation
29. Pulp and Paper Research Institute of Canada
30. Roosevelt Campobello International Park Commission
31. Saint John Harbour Bridge Authority
32. Terry Fox Humanitarian Award Inc.
33. The Vanier Institute of the Family
34. Western Grains Research Foundation

Harbour Commissions

35. Fraser River Harbour Commission
36. The Hamilton Harbour Commissioners
37. Thunder Bay Harbour Commission
38. Nanaimo Harbour Commission
39. North Fraser Harbour Commission
40. Oshawa Harbour Commission
41. Port Alberni Harbour Commission
42. The Toronto Harbour Commissioners
43. Windsor Harbour Commission

3.4 INTERNATIONAL ORGANIZATIONS

Corporate entities created pursuant to international agreements where Canada has a right to appoint or elect members to a governing body.

1. African Development Bank
2. African Development Fund
3. Asian Development Bank
4. Caribbean Development Bank
5. Commonwealth War Graves Commission
6. Inter American Development Bank
7. International Bank for Reconstruction and Development
8. International Boundary Commission
9. International Development Association
10. International Finance Corporation
11. International Fund for Agricultural Development
12. International Joint Commission
13. International Monetary Fund

3.5 CHANGES TO PART II LISTINGS JULY 31, 1988 — JUNE 30, 1989

Name	Change
A. CROWN CORPORATIONS—Parents	
Air Canada	Sold (43%)
Enterprise Cape Breton Corporation	Added
B. CROWN CORPORATIONS—Subsidiaries held at 100%	
Air Canada	
Air BC Limited	Sold
enRoute Card Inc.	Sold
enRoute Card International Inc.	Sold
enRoute Card USA Inc.	Sold
enRoute Network Inc.	Sold
enRoute Card Europe B.V.	Sold
Airtransit Canada	Sold
Touram Inc.	Sold
Touram Group Service Inc.	Sold
Gelco Express Ltd.	Sold
Gelco Same Day Ltd.	Sold
157710 Canada Inc.	Sold
Canada Development Investment Corporation	
119371 Canada Limited	Deleted
Canada Eldor Inc.	Added
Eldor Resources Limited	Deleted
Eldorado Aviation Limited	Deleted
Eldorado NPI Limited	Deleted
Eldorado Nuclear Limited	Deleted
Eldorado Resources Limited	Deleted
Nordion International Inc.	Added
Theratronics International Limited	Added
Canadian National Railway Company	
Northwestel Inc.	Deleted
Terra Nova Telecommunications Inc.	Deleted
Cape Breton Development Corporation	
Cape Breton Marine Farming Limited	Deleted
Darr (Cape Breton) Limited	Deleted
Dundee Estates Limited	Deleted
Enterprise Cape Breton Corporation	
Cape Breton Marine Farming Limited	Added
Darr (Cape Breton) Limited	Added
Dundee Estates Limited	Added

Name	Change
Petro-Canada	
1283-9304 Quebec Inc.	Added
159542 Canada Inc.	Added
159543 Canada Inc.	Added
Petro-Canada (North Africa) Inc.	Added
C. CROWN CORPORATIONS' INVESTMENTS	
Air Canada	
Subsidiaries held at 50-99%:	
Matac Cargo Ltd.	Sold
The Gemini Group Automated Distribution Systems Inc.	Sold
152160 Canada Inc.	Sold
Air Ontario Inc.	Sold
Air Alliance Inc.	Sold
Northwest Territorial Airways Ltd.	Sold
Express Messenger Systems Incorporated	Sold
Northern Express Messenger Systems Ltd.	Sold
Associates held at less than 50%:	
Aeronautical Radio, Inc.	Sold
Aerospace Realties (1986) Ltd.	Sold
Air Cargo Facilities Inc.	Sold
Air Nova Inc.	Sold
Airlines Clearing House Inc.	Sold
Airlines Reporting Corporation	Sold
Airline Tariff Publishing Co.	Sold
Global Travel Computer Holdings Ltd.	Sold
GPA Group Ltd.	Sold
Air Maple Limited	Sold
Air Tara Limited	Sold
Aviation Consultants Limited	Sold
Avitas Inc.	Sold
Elasis B.V.	Sold
Extra Executive Transport GmbH	Sold
GPA Airbus 320 Limited	Sold
GPA Corporation	Sold
GPA Europe Limited	Sold
GPA Finance Limited	Sold
GPA Jetprop Inc.	Sold
GPA Fokker 100 Limited	Sold
GPA Fokker 100 (NA) N.V.	Sold
GPA Jetprop Limited	Sold
GPA Leasing (NA) N.V.	Sold
GPA Midland Limited	Sold
GPA Netherlands B.V.	Sold
Guinness Peat Aviation Asia Limited	Sold
Guinness Peat Aviation (Belgium) N.V.	Sold
Panco Corporation	Sold
Transportation Analysis International Ltd.	Sold
Irish Aerospace Limited	Sold
TAI Incorporated	Sold

Name	Change
TransTiger Corporation	Sold
Innotech Aviation Industries (1986) Ltd.	Sold
Innotech Aviation Enterprises Ltd.	Sold
International Aeradio (Caribbean) Limited	Sold
Société internationale de télécommunications aéronautiques	Sold
Laxfuel Corporation	Sold
Lax Two Corp.	Sold
Canada Development Investment Corporation	
Subsidiaries held at 50-99%:	
Ginn and Company (Canada)	Added
GLC Publishers Ltd.	Added
Associates held at less than 50%:	
CAMECO—A Canadian Mining & Energy Corporation	Added
Key Lake Mining Corp.	Deleted
Canada Post Corporation	
Associates held at less than 50%:	
Cooperative Vereniging International Post Corp. U.A.	Added
International Post Corporation S.A.	Added
Canadian National Railway Company	
Subsidiaries held at 50-99%:	
East Yard Development Ltd.	Name changed to Portage & Main Development Ltd.
Portage & Main Development Ltd.	Name changed from East Yard Development Ltd.
Associates held at less than 50%:	
Computer Sciences Canada, Inc.	Deleted
Cape Breton Development Corporation	
Subsidiaries held at 50-99%:	
Whale Cove Summer Village Limited	Deleted
Associates held at less than 50%:	
Bay Lumber Limited	Deleted
Haak Conveyor & Manufacturing	Deleted
Newco Mining Limited	Deleted
4 M Panga Hotel Co. Limited	Deleted
Enterprise Cape Breton Corporation	
Subsidiaries held at 50-99%:	
Whale Cover Summer Village Limited	Added
Associates held at less than 50%:	
Bay Lumber Limited	Added
Bay Lumber Limited	Deleted
Haak Conveyor & Manufacturing	Added
Newco Mining Limited	Added
4 M Panga Hotel Co. Limited	Added
Nova Scotia Clam Limited	Added

Name	Change
Harbourfront Corporation	
Subsidiaries held at 50-99%:	
International Readings at Harbourfront	Added
Petro-Canada	
Associates held at less than 50%:	
113989 Canada Limited	Deleted
139741 Canada Ltée	Deleted
Dreco Energy Services	Added
East Coast Spill Response Inc.	Added
Kenmac Energy Inc.	Added
Les Huiles Town & Country	Added
Les Petroles Vosco (Canada) Ltée	Added
MacGillivray Fuels Limited	Added
McAsphalte Inc.	Deleted
Perry Fuels Inc.	Deleted
Petrole Chaleurs (1981) Inc.	Added
Riley's Data Share International Ltd.	Deleted
Town & Country Fuels (1980) Inc.	Deleted
D. JOINT AND MIXED ENTERPRISES	
125459 Canada Ltd.	Dissolved
Captain Scotts Fish & Chips (1978) Ltd.	Deleted
Geoform Designs Inc.	Deleted
Mohawk St. Régis Lacrosse Ltd.	Dissolved
Mount Nansen Mines Ltd.	Deleted
North Slope Refiners Inc.	Added
Prestige Poultry Products Ltd.	Deleted
Romfield Building Corporation Ltd.	Deleted
Société Inter-Port de Québec	Deleted
E. OTHER ENTITIES	
Canadian Centre on Substance Abuse	Created
Canadian Sport and Fitness Administration Center Inc.	Name changed from National Sport and Recreation Center Inc.
International Centre for Human Rights and Democratic Development	Created
National Sport and Recreation Center Inc.	Name changed to Canadian Sport and Fitness Administration Centre Inc.
Oo-Za-We-Kwun Centre Inc.	Dissolved
Trustees of the Olympic Endowment Fund	Deleted
XV Winter Games Organizing Committee	Deleted
F. INTERNATIONAL ORGANIZATIONS	
No changes	

4. CORPORATE INFORMATION ABOUT OTHER CORPORATE INTERESTS OF CANADA

4.1 JOINT (J) AND MIXED (M) ENTERPRISES

Name of Corporation	Type	Head Office	Responsible Minister	Year Incorporated and Statutory Authority	Fiscal Year End/ Total Assets (A)/ Liabilities (L)	Auditor	Mandate/Government Objective in Participating	Federal Ownership Percentage*
Air Canada[1]	M	500 Dorchester Blvd. West Montreal, Quebec H2Z 1X5	Transport	1988, Air Canada Public Participation Act	December 31/88 A = $3,437M L = $2,508M	Thorne, Ernst & Whinney	To provide a safe, reliable and efficient air transportation service.	57%
Canarctic Shipping Company Limited	M	1005-350 Sparks Street Ottawa, Ontario K1R 7S8	Transport	1975, Canada Corporations Act	December 31/88 A = $24.5M L = $30.2M	Coopers & Lybrand	To acquire, sell, lease, charter and otherwise deal in and with ships of every description, and to do all other things necessary or incidental thereto.	51%
Cooperative Energy Corporation	M	2000, 530-8 Avenue S.W. Calgary, Alta. T2P 3S8	Energy, Mines and Resources	1982, Cooperative Energy Act	December 31/88 A = $209M L = $97M	Touche, Ross & Co.	To operate an energy corporation whose primary activity is to explore and develop new Canadian oil and gas resources./To bring together a number of co-operative financial, agricultural, service and marketing institutions to participate in the Canadian oil and gas industry.	25%
Lower Churchill Development Corporation Limited	J	P.O. Box 9100 St.John's, Nfld. A1A 2X8	Energy, Mines and Resources	1978, Newfoundland Companies Act	December 31/88 A = $30.2M L = $47,000	Clarkson, Gordon & Co.	To establish a basis for the development of all or part of the hydroelectric potential of the Lower Churchill basin and the transmission of this energy to markets.	49%
National Sea Products Ltd.	M	1959 Upper Water Street Halifax, N.S. B3J 3B7	Minister of State (Privatization and Regulatory Affairs)	Amalgamated in 1967, The Companies Act of Nova Scotia	December 31/88 A = $403.5M L = $302.3M	Clarkson, Gordon & Co.	The processing and marketing of fish, seafoods and fish by-products./Restructuring the Atlantic fisheries.	19.6%
North Portage Development Corporation	J	1100-444 St. Mary Avenue Winnipeg, Man. R3C 3T1	Western Economic Diversification	1983, Manitoba Corporations Act	March 31/89 A = $77.5M L = $2M	Coopers & Lybrand	To foster the social and economic development of the North Portage area in the core area of Winnipeg./Under the Special Recovery Capital Projects, stimulating economic recovery in Canada and Manitoba.	33.3%
NPM Nuclear Project Managers Canada Inc.	M	620 Dorchester Blvd. West Montreal, Quebec H3B 1N8	Energy, Mines and Resources	1982, Canada Business Corporations Act	March 31/87 (inactive)	N/A	Nuclear Project and Construction Management./To transfer this activity to the private sector.	13.34%

Name of Corporation	Type	Head Office	Responsible Minister	Year Incorporated and Statutory Authority	Fiscal Year End/ Total Assets (A)/ Liabilities (L)	Auditor	Mandate/Government Objective in Participating	Federal Ownership Percentage*
Telesat Canada	M	1601 Telesat Court Gloucester, Ontario K1B 5P4	Communications	1969, Telesat Canada Act	December 31/88 A = $625.5M L = $434.9M	Peat, Marwick	To establish multi-purpose satellite telecommunication systems.	50%[2]

Excluded from this table are those corporate interests which the Superintendant of Bankruptcy has received under The Bankruptcy Act; they are listed in Table 3.2.

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[1] All Crown shares were subsequently sold July 19, 1989.
[2] Excludes 3.75% held by CN.

4.2 OTHER ENTITIES

Name of Corporation	Head Office	Responsible Minister	Year Incorporated and Statutory Authority	Fiscal Year End	Auditor	Mandate/Government Objective in Participating	Federal Ownership Percentage*
Agricultural Products Board	Room 3115 Sir John Carling Bldg. Ottawa, Ontario K1A 0C5	Agriculture	1951, Agricultural Products Board Act	March 31	Auditor General of canada	To buy, sell or import agricultural products. It may purchase and hold commodities for later sale, emergency relief in Canada or assistance programs abroad.	N/A
Asia-Pacific Foundation of Canada	Room 666 999 Canada Place Vancouver, B.C. V6C 3E1	External Affairs	1984, Asia-Pacific Foundation of Canada Act	June 30	Coopers and Lybrand	To develop closer ties between the peoples and institutions of Canada and the peoples and institutions of the Asia-Pacific region.	N/A
Army Benevolent Fund	Veterans Affairs Bldg. 284 Wellington Street Ottawa, Ontario K1A 0P4	Veterans Affairs	1947, Army Benevolent Fund Act	March 31	Auditor General of Canada	To provide grants and other financial assistance to Second World War veterans, or their dependants./Profits from services operated for the benefit of the Canadian Army during the Second World War were allocated to the Army Benevolent Fund for disbursement.	N/A
Association for the Export of Canadian books	Suite 1101 1 Nicholas St. Ottawa, Ontario K1N 7B7	Communications	1972, Canada Corporations Act	March 31	Robert B. Shortly	To assist in expanding the export of Canadian published books.	N/A
The Blue Water Bridge Authority	Bridge Street Point Edward, Ontario N7T 7H7	Transport	1964, Blue Water Bridge Authority Act	August 31	Deloitte, Haskins & Sells	To hold, operate, maintain and repair the Canadian portion of the Blue Water Bridge which links Point Edward, Ontario and Port Huron, Michigan, USA, across the St. Clair River.	N/A
Board of Trustees of the Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children	Queen Elizabeth II Canadian Research Fund Jeanne Mance Bldg. Tunney's Pasture Ottawa, Ontario K1A 0W9	Health and Welfare 1	1959, Queen Elizabeth II Canadian Research Fund Act	March 31	Auditor General of Canada	The furthering of research into the diseases of children and the prevention and cure of such diseases.	N/A
Buffalo and Fort Erie Public Bridge Authority	The Peace Bridge Peace Bridge Plaza Buffalo, N.Y. 14213 U.S.A.	Finance	1934, Buffalo and Fort Erie Public Bridges Company Act	December 31	Arthur Young & Co.	To construct, maintain and operate a bridge across the Niagara River between Buffalo, New York and Fort Erie, Ontario.	N/A

Name of Corporation	Head Office	Responsible Minister	Year Incorporated and Statutory Authority	Fiscal Year End	Auditor	Mandate/Government Objective in Participating	Federal Ownership Percentage*
Calgary Olympic Development Association	Canada Olympic Park Sub P.O. 55 Calgary, Alta. T3B 0H0	Health and Welfare 2	1979, Societies Act of Alberta	March 31	Price Waterhouse	To foster the development of Canadian athletics; to administer the Olympic Endowment Funds; and to operate and maintain the Canada Olympic Park.	N/A
Canada Grains Council	Suite 760 360 Main Street Winnipeg, Man. R3C 3Z3	Minister of State (Grains and Oilseeds)	1969, Canada Corporations Act	March 31	Thorne, Ernst & Whinney	To provide a forum in which Council members representing all facets of the grain industry could discuss mutual problems, study particular issues and provide advice to the government.	N/A
Canadian Centre on Substance Abuse	Suite 607 350 Sparks St. Ottawa, Ontario K1R 7S8	Health and Welfare	1988, Canadian Centre on Substance Abuse Act	March 31	McIntyre & Mcharty	To promote increased awareness on the part of Canadians of alcohol and drug abuse and their increased participation in the reduction of such abuse.	N/A
Canadian Fitness and Lifestyle Research Institute Inc.	Suite 200 47 Clarence Street Ottawa, Ontario K1N 9K1	Health and Welfare	1980, Canada Corporations Act	March 31	Deloitte Samson	To collect, interpret and disseminate information pertaining to the fitness levels of Canadians.	N/A
Canadian International Grains Institute	1000-303 Main St. Winnipeg, Man. R3C 3G7	Minister of State (Grains and Oilseeds)	1972, Canada Corporations Act	March 31	Deloitte, Haskins & Sells	To offer courses in grain technology and handling to influential foreign participants in the field to develop existing and potential markets abroad for Canadian grains and oilseeds./Promotional tool for the export of Canadian grain, oilseeds and products.	N/A
Canadian Livestock Records Corporation	2417 Holly Lane Ottawa, Ontario K1V 0M7	Agriculture	1988, Animal Pedigree Act	December 31	Clarkson, Gordon & Co.	To perform services for and on behalf of members of the 47 Breed Associations./To ensure the maintenance of the General Stud and Herd Books.	N/A
Canadian Sport and Fitness Administration Centre Inc.	1600 James Naismith Ottawa, Ontario K1B 5N8	Health and Welfare	1974, Canada Corporations Act	March 31	Peat, Marwick, Mitchell & Co.	To assist organizations concerned with the development of Canadian sport and recreation by providing support services in the area of administration and promotion.	N/A
Coaching Association of Canada	1600 James Naismith Drive Gloucester, Ontario K1B 5N4	Health and Welfare	1970, Canada Corporations Act	March 31	Ouseley, Harvey & Associates	To provide programs, services and publications to improve coaching effectiveness throughout Canada.	N/A
Forest Engineering Research Institute of Canada	143 Place Frontenac Point Claire, Quebec H9R 4Z7	Minister of State (Forestry)	1986, Canada Corporations Act	December 31	Charette, Fortier & Harvey	To carry out research and development projects to demonstrate practical measures for increasing the efficiency of wood harvesting in Canada.	N/A

Name of Corporation	Head Office	Responsible Minister	Year Incorporated and Statutory Authority	Fiscal Year End	Auditor	Mandate/Government Objective in Participating	Federal Ownership Percentage*
FORINTEK Canada Corp.	6620 N.W. Marine Dr. Vancouver, B.C. V6T 1X2	Minister of State (Forestry)	1979, Canada Corporations Act	March 31	Touche, Ross & Co.	To carry out research and development activities in solid wood products and provide specialized advice on forest products to the federal government.	N/A
Fraser River Harbour Commission	Suite 505 713 Columbia Street New Westminster, B.C. V3M 1B2	Transport	1913, New Westminster Harbour Commissioners Act	December 31	Thorne, Ernst & Whinney	To manage and control the harbour and the works and property therein under its jurisdiction.	N/A
The Hamilton Harbour Commissioners	605 James Street North Hamilton, Ontario L8L 1K9	Transport	1912, Hamilton Harbour Commissioners Act	December 31	Panniell, Kerr & McGillivray	To regulate and control navigation and all works and operations within the harbour.	N/A
Hockey Canada Inc.	c/o Olympic Saddledome P.O. Box 1060 Calgary, Alta. T2P 2K8	Health and Welfare	1969, Canada Corporations Act	March 31	Clarkson, Gordon & Co.	To support national hockey teams representing Canada in international competition and to support generally the playing of hockey in Canada.	N/A
International Centre for Human Rights and Democratic Development	N/A	External Affairs	1988, International Centre for Human Rights and Democratic Development Act	March 31	Auditor General of Canada	To promote and support cooperation between Canada and other countries for developing and strengthering of democratic rights and institutions.	N/A
International Fisheries Commission Pension Society	c/o Treasury Board of Canada L'Esplanade Laurier West Tower 300 Laurier ave. Ottawa, Ontario K1A 0R5	Fisheries and Oceans	1970, Canada Corporations Act	September 30	Auditor General of Canada	To arrange for and administer the provision of pensions and insurance for the employees of any international fisheries commission, whose seat or headquarters is in any country established and maintained by Canada or the U.S.,or both.	N/A
Last Post Fund	Suite 921 685 Cathcart St. Montreal, Quebec H3B 1M7	Veterans Affairs	1922, Federal Charter	March 31	Audit Services Bureau	To ensure that qualified veterans receive dignified burials.	N/A
Maritime Forestry Complex Corp.	Hugh John Flemming Forestry Centre RR#10, Fredericton, N.B. E3B 6H6	Minister of State (Forestry)	1980, Maritime Forestry Complex Corporation Act, New Brunswick	March 31	Thorne, Ernst & Whinney	To establish a Maritime Provinces Regional Forestry Complex.	N/A

Name of Corporation	Head Office	Responsible Minister	Year Incorporated and Statutory Authority	Fiscal Year End	Auditor	Mandate/Government Objective in Participating	Federal Ownership Percentage*
Medical Council of Canada	P.O. Box 8234 Ottawa, Ontario K1G 3H7	Health and Welfare	1912, Canada Medical Act	December 31	Thorne, Ernst & Whinney	To promote and effect the establishment of a qualification in medicine, such that the holders thereof shall be acceptable and empowered to practice in all the provinces of Canada.	N/A
Nanaimo Harbour Commission	P.O. Box 131 104 Front Street Nanaimo, B.C. V9R 5R4	Transport	1960, Harbour Commissions Act	December 31	Bestwick and Partners	To manage and control the harbour and the works and property therein under its jurisdiction.	N/A
The Nature Trust of British Columbia	909-100 Park Royal South, West Vancouver, B.C. V7T 1A2	Prime Minister	1971, Canada Corporations Act	December 31	Thorne, Ernst & Whinney	To purchase and preserve ecologically important parcels of land in B.C.	N/A
North Fraser Harbour Commission	2020 Airport Road Richmond, B.C. V7B 1C6	Transport	1913, North Fraser Harbour Commissioners Act	December 31	Dunwoody & Co.	To manage and control the harbour and the works and property therein under its jurisdiction.	N/A
Northern Native Fishing Corporation	P.O. Box 876 4-214 Third Ave. West, Prince Rupert, B.C. V8J 3Y1	Indian Affairs and Northern Development	1982, British Columbia Companies Act	January 31	Arthur Andersen & Co.	To ensure preservation of a fleet of fishing vessels and related licences for the long-term benefit of native fishermen.	N/A
NWT Co-operative Business Development Fund	P.O. Box 1565 4905-48th St. Yellowknife, NWT X1A 2P2	Indian Affairs and Northern Development	1986, Canada Co-operative Association Act	December 31	Price Waterhouse	To act as the funding corporation for the co-operative system in the NWT./To stabilize the co-operative movement in the NWT.	N/A
Oshawa Harbour Commission	1050 Farewell Ave. Oshawa, Ontario L1H 6N6	Transport	1961, Oshawa Harbour Commissioners Act	December 31	Deloitte, Haskins & Sells	To manage and control the harbour and the works and property therein under its jurisdiction.	N/A
PARTICIPaction	40 Dundas St. West Suite 220 Toronto, Ontario M5G 2C2	Health and Welfare	1971, Canada Corporations Act	March 31	Peat, Marwick, Mitchell & Co.	To inform Canadians about the positive benefits of physical fitness and to motivate them to adopt healthy, physically active lifestyles.	N/A
POS Pilot Plant Corporation	118 Veterinary Rd. Saskatoon, Sask. S7N 2R4	Minister of State (Grains and Oilseeds)	1973, Canada Corporations Act	March 31	Peat, Marwick, Mitchell & Co.	To increase processing of grains and oilseeds into marketable products./To encourage and promote the development and increase of value-added agriculturally based products for domestic and export consumption.	N/A

Name of Corporation	Head Office	Responsible Minister	Year Incorporated and Statutory Authority	Fiscal Year End	Auditor	Mandate/Government Objective in Participating	Federal Ownership Percentage*
Port Alberni Harbour Commission	P.O. Box 99 2750 Harbour Road Port Alberni, B.C. V9Y 7M6	Transport	1947, Harbour Commissions Act	December 31	Newman Hill, Duncan & Lacoursière	To manage and control the harbour and the works and property therein under its jurisdiction.	N/A
Pulp and Paper Research Institute of Canada	570 St. John's Blvd. Pointe Claire, Quebec H9R 3J9	Minister of State (Forestry)	1950, Part II Canada Corporations Act	December 31	Touche, Ross & Co.	To support the efforts of firms by providing basic research, data and improved technology in the field of pulp and paper./ To establish a pulp and paper research centre to provide Canadian industry with a focal point in the sector.	N/A
Roosevelt Campobello International Park Commission	P.O. Box 9 Welshpool, Campobello Island N.B. E0G 3H0	External Affairs	1964, The Roosevelt Campobello International Park Commission Act	December 31	Kenneth Foster & Co.	To administer as a memorial the Roosevelt Campobello International Park	N/A
Saint John Harbour Bridge Authority	P.O. Box 6176 Station A Saint John, N.B. E2L 4R6	Finance	1962, Statute passed by Province of N.B.	March 31	Touche, Ross & Co.	To construct a bridge across the Harbour of Saint John, and to enter into agreement with federal, provincial and municipal governments, persons or corporations respecting the financing and construction of such bridge.	N/A
Terry Fox Humanitarian Award Inc.	711-151 Sparks St. Ottawa, Ontario K1P 5E3	Health and Welfare	1982, Canada Corporations Act	April 30	Touche, Ross & Co.	To encourage Canadian youth to seek high ideals as represented by Terry Fox by granting commemorative scholarships.	N/A
Thunder Bay Harbour Commission	P.O. Box 2266 Thunder Bay, Ontario P7B 5E8	Transport	1958, Lakehead Harbour Commissioners Act	December 31	Clarkson, Gordon & Co.	To manage and control the harbour and the works and property therein under its jurisdiction.	N/A
The Toronto Harbour Commissioners	60 Harbour Street Toronto, Ontario M5J 1B7	Transport	1911, Toronto Harbour Commissioners Act	March 31	Thorne, Ernst & Whinney	To manage and control the harbour and the works and property therein under its jurisdiction.	N/A
The Vanier Institute of the Family	120 Holland Ave. Ottawa, Ontario R1X 0X6	Prime Minister	1965, Canada Business Corporations Act	December 31	Coopers & Lybrand	To promote the spiritual and material well-being of Canadian families and to study their social, physical, mental, moral and financial environment and characteristics.	N/A
Western Grains Research Foundation	118 Veterinary Rd. Saskatoon, Sask. S7N 2R4	Agriculture	1981, Canada Corporations Act	December 31	G.A. Welch and Company	To help with improving the productivity and profitability of grains and oilseeds production in the prairie provinces.	N/A

Name of Corporation	Head Office	Responsible Minister	Year Incorporated and Statutory Authority	Fiscal Year End	Auditor	Mandate/Government Objective in Participating	Federal Ownership Percentage*
Windsor Harbour Commission	500 Riverside Drive West Windsor, Ontario N9A 5K6	Transport	1957, Windsor Harbour Commissioners Act	December 31	Peat, Marwick	To manage and control the harbour and the works and property therein under its jurisdiction.	N/A

1. The directors of the Board are "appointed by Her Majesty by Commission under the Great Seal".
2. Two directors appointed by the Minister of State (Fitness and Amateur Sport) who has received delegated authority from the Minister of Health and Welfare.

4.3 INTERNATIONAL ORGANIZATIONS

Name of Corporation	Head Office	Responsible Minister	Year Incorporated and Statutory Authority	Fiscal Year End	Auditor	Mandate/Government Objective in Participating	Federal Ownership Percentage*
African Development Bank	01 P.O. Box 1387 Abidjan 01 Côte d'Ivoire Africa	External Affairs	1963, Agreement signed by member countries	December 31	Akintola Williams & Hassan Ltd.	To contribute to the acceleration of economic development of the member countries, individually and collectively. To contribute to the achievement of Canada's development assistance, foreign policy and trade objectives.	3.11%
African Development Fund	01 P.O. Box 1387 Abidjan 01 Côte d'Ivoire Africa	External Affairs	1972, Agreement signed by member countries	December 31	Akintola Williams & Hassan Ltd.	To assist the African Development Bank in making an increasingly effective contribution to the economic and social development of the Bank members. To contribute to the achievement of Canada's development assistance, foreign policy and trade objectives.	N/A
Asian Development Bank	P.O. Box 789 1099 Manila, The Philippines	External Affairs	1965, Agreement signed by member countries	December 31	Deloitte, Haskins & Sells	To lend funds, promote investments and provide technical assistance to developing countries, and generally to foster economic growth in the Asian Region. To contribute to the achievement of Canada's development assistance, foreign policy and trade objectives.	5.7%
Caribbean Development Bank	P.O. Box 408 Wildey, St. Michael Bridgetown, Barbados	External Affairs	1969, Agreement signed by member countries	December 31	Price, Waterhouse & Co.	To contribute to the harmonious economic growth and development of the member countries, and integration among them, having special and urgent regard to the needs of the less developed members of the region. To contribute to the achievement of Canada's development assistance, foreign policy and trade objectives.	10.44%
Commonwealth War Graves Commission	2 Marlow Road Maidenhead, Berks. U.K. S16 7DX	Veterans Affairs	1917, Royal Charter	March 31	Deloitte, Haskins & Sells	To mark and maintain graves and memorials and keep records of the members of the Forces of the Commonwealth who died in the two World Wars.	N/A
Inter American Development Bank	1300 New York Ave. Washington, D.C. U.S.A. 20577	External Affairs	1959, Agreement signed by member countries	December 31	Price, Waterhouse & Co.	To contribute to the acceleration of the process of economic development of the member countries, individually and collectively. To contribute to the achievement of Canada's development assistance, foreign policy and trade objectives.	4.4%
International Bank for Reconstruction and Development	1818 H Street, N.W. Washington, D.C. U.S.A. 20433	Finance	1945, Bretton Woods Agreement Act	June 30	Price, Waterhouse & Co.	To assist in the reconstruction and development of territories of member countries.	2.96%

Name of Corporation	Head Office	Responsible Minister	Year Incorporated and Statutory Authority	Fiscal Year End	Auditor	Mandate/Government Objective in Participating	Federal Ownership Percentage*
International Boundary Commission	615 Booth Street Room 130 Ottawa, Ontario K1A 0E9	External Affairs	1908, Treaty 1960, International Boundary Commission Act	March 31	Auditor General of Canada	To keep the boundary vista entirely free of obstruction and plainly marked for the proper enforcement of customs, immigration, fishing and other laws of Canada and the U.S. The Commission is concerned with regulating works on the boundary line or near it, not with movement across it.	N/A
International Development Association	1818 H Street, N.W. Washington, D.C. U.S.A. 20433	Finance	1960, Articles of Agreement; 1960, International Development Association Act	June 30	Price, Waterhouse & Co.	To promote economic development, increase productivity and thus raise standards of living in the less-developed areas of the world.	3.2%
International Finance Corporation	1818 H Street, N.W. Washington, D.C. U.S.A. 20433	Finance	1956, Articles of Agreement; Vote 731, Appropriation Act No.6, 1956	June 30	Price, Waterhouse & Co.	To further economic development by encouraging the growth of productive enterprise in member countries, supplementing the activities of the International Bank for Reconstruction and Development.	4.35%
International Fund for Agricultural Development	107 Via Del Serafico 00142 Rome, Italy	External Affairs	1976, International Agreement	December 31	Price, Waterhouse & Co.	To mobilize additional resources to be made available on concessional terms for agricultural development in member states. To contribute to the achievement of Canada's development assistance, foreign policy and trade objectives.	N/A
International Joint Commission	100 Metcalfe St. Ottawa, Ontario K1P 5M1	External Affairs	1909, Boundary Waters Treaty Act	March 31	Auditor General of Canada	To deal with the use, obstruction and diversion of boundary waters and rivers crossing the boundary between Canada and the U.S.	N/A
International Monetary Fund	700 19th St., N.W. Washington, D.C. U.S.A. 20431	Finance	1945, Agreement Signed by Member Countries	April 30	External Audit Committee	Established to promote economic welfare by encouraging the expansion of trade, the maintenance of orderly exchange arrangements, and the reduction of balance of payments.	N/A

* Federal Ownership Percentage calculation is based on number of votes.